



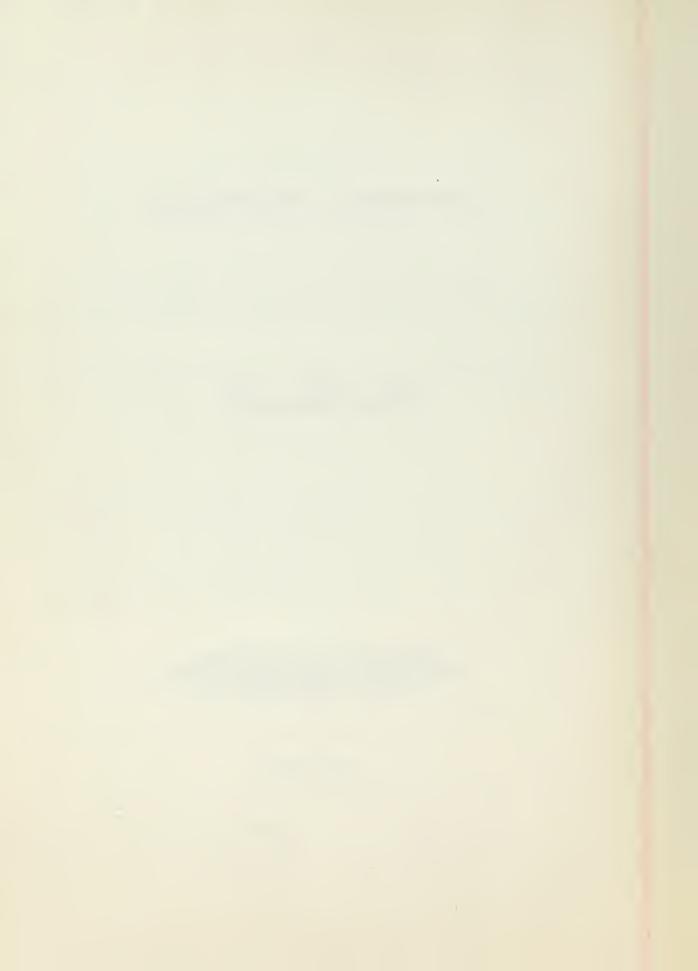
COLPERENCIAL OF A SINGLE COLORS DEPOT

LOR. J. Miles, 10, COM

Proposed for Dr. A. an Johnson Many Called Aptrollership Program George Sea Defen University





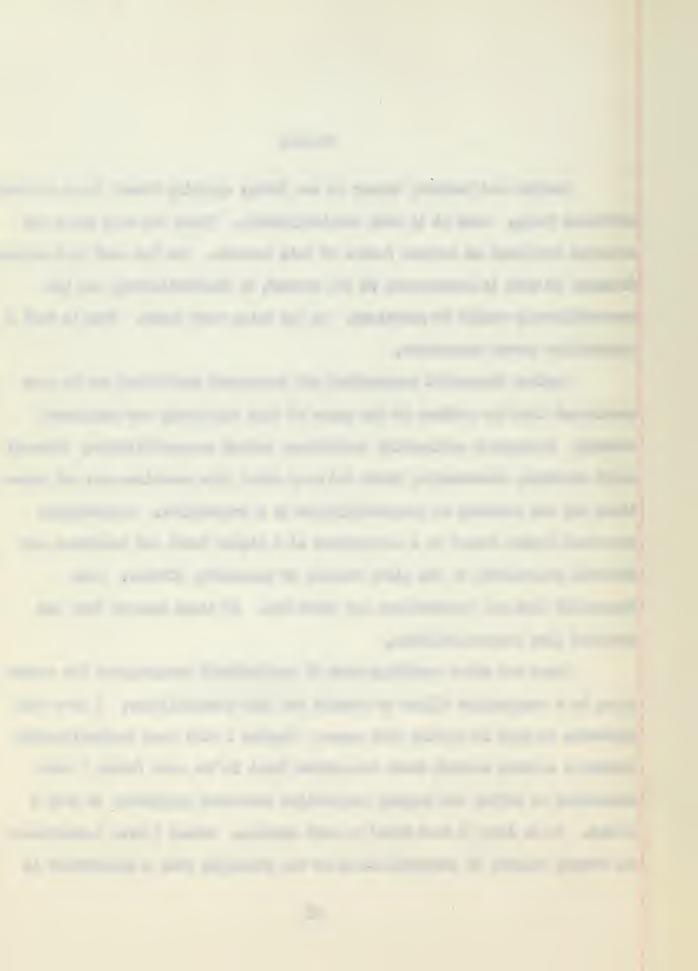


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Asading and learning theory is one thing; applying theory is an entirely different thing. Such it is with comptrollership. There are many books and articles available on various facets of this science. For the most part authors disagree on what is encompared in the concept of comptrollership and has comptrollership should be practiced. In one thing most agree. That is that a comptroller serves management.

Various commercial enterprises and government activities are ne more consistent than the writers on the scope of this relatively new management concept. Management engineering techniques, budget responsibilities, internal mudit controls, howekeeping tasks and many other jobs sametimes are and sometimes are not included as responsibilities of a comptroller. Comptrollers sametimes report direct to a comptroller at a higher level and scantimes are directly responsible to the plant manager or communding officer. More frequently than not comptrollers are staff men. At times however they are assigned line responsibilities.

Those and other variables make it particularly advantageous for anyone going to a comptroller billet to resolve the many possibilities. I have this objective in mind in writing this paper. Anasing I will have comptrollership duties at a large coastal Naval Assumition Depot in the near future I have endeavored to define the various comptroller functions applicable to such a billet. In so doing I have tried to omit details. Bather I have concentrated on broader aspects of comptrollership on the principle that a comptroller is



most effective when he disassociates himself from details.

Bureau of Ordnance, Mesars. 1. 3. Dievens, 3. Malconson, and 3. Marnock all of the Dureau of Ordnance for the samy hours of their time they so willingly gave me. Without their advice and assistance this paper could not have been written.

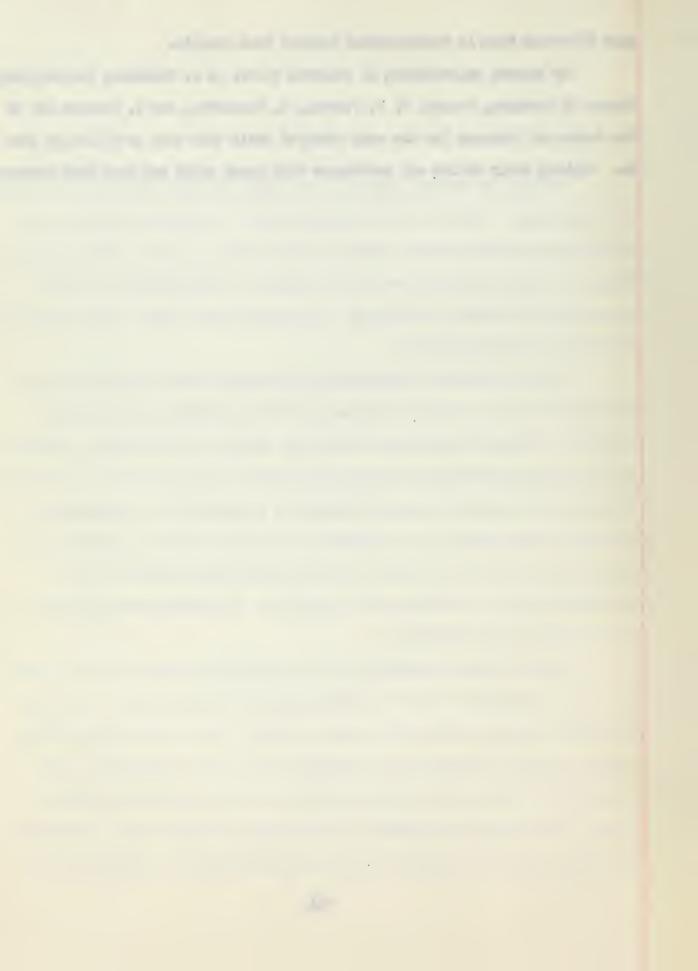
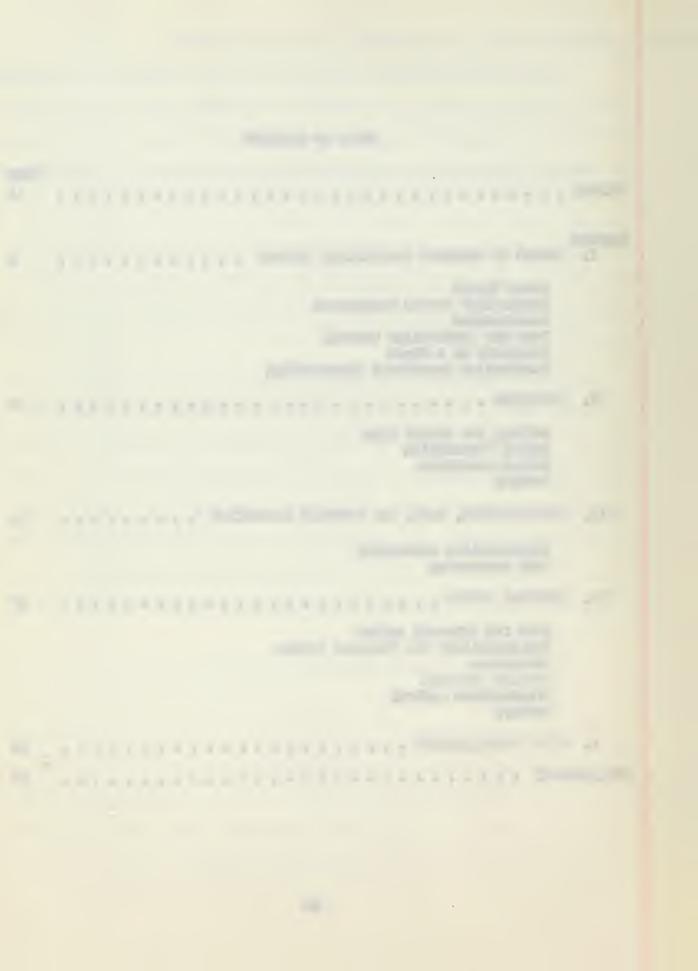


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CHAPTER I

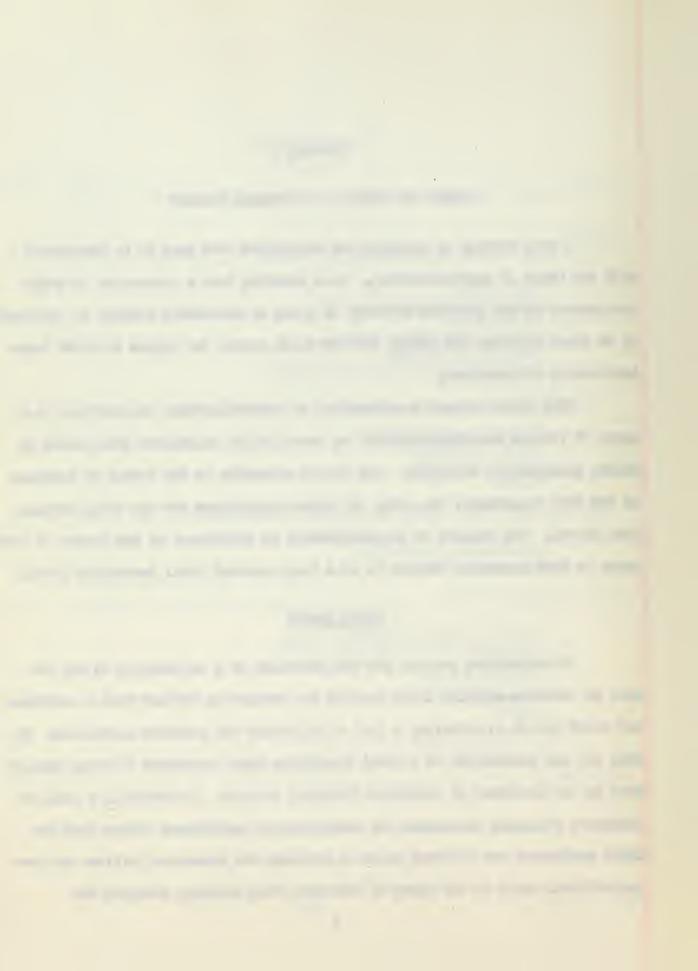
BURRAU OF CHOMALER COLUMNIER COMMIT

A vast variety of pursuits and activities have come to be associated with the field of comptrollership. Upon entering into a discussion of comptrollership at any specific activity or group of activities clarity is injected if we first consider the policy factors which govern the degree to which comptrollership is practised.

This paper focuses consideration of comptrollership as practiced at a group of related activities within the bread policy guidelines established by higher governmental authority. The higher authority is the Bureau of Unimance of the Navy Department; the group of related activities are the Naval Ammunition Depots. The concept of comptrollership as envisioned by the Eureau of Ordnance is that generally achered to at a large coastal Naval Ammunition Depots.

Darie Theory

The underlying purpose for the existence of a comptroller at any Dureau of Ordennee activity is to provide the commanding officer with a coordinated staff effort in achieving a goal of efficient and economic operations. To this end the comptroller at a haval assumition Depot emissions to steer management in the direction of effective firm chalcometer. In achieving a goal of effective financial management the comptroller's usefulness arises from the staff assistance and guidance which he provides the commanding officer and organizational units in the areas of financial fact finding, analysis and



interpretation, budget formulation and execution, internal review, so was re-

Comptroller forves dans posent

and presentation of data by a comptroller relatives other executive of a comprolising a cumulof staff were. Comprolisin because in orfor in these fine-tions the class their efforts would be diverted to a great extent from more productive pursuits in the areas of policy formulation, decision, and proves direction. Thus, whereas previously such is dividual executive one to his on staff organization to perform the efforts toward effective financial control and whereas he devoted considerable of its can time and emergies because this objective, the Comptroller of the could be now because the principal focal point for these staff efforts.

In addition to relieving other executives of many bardies, the comptroller affords a means for central countination of a herotofore sea fore' process.

At one feeal point all information is intervaled. Only in a circle organizational component can many of the intervalence of a between information coming

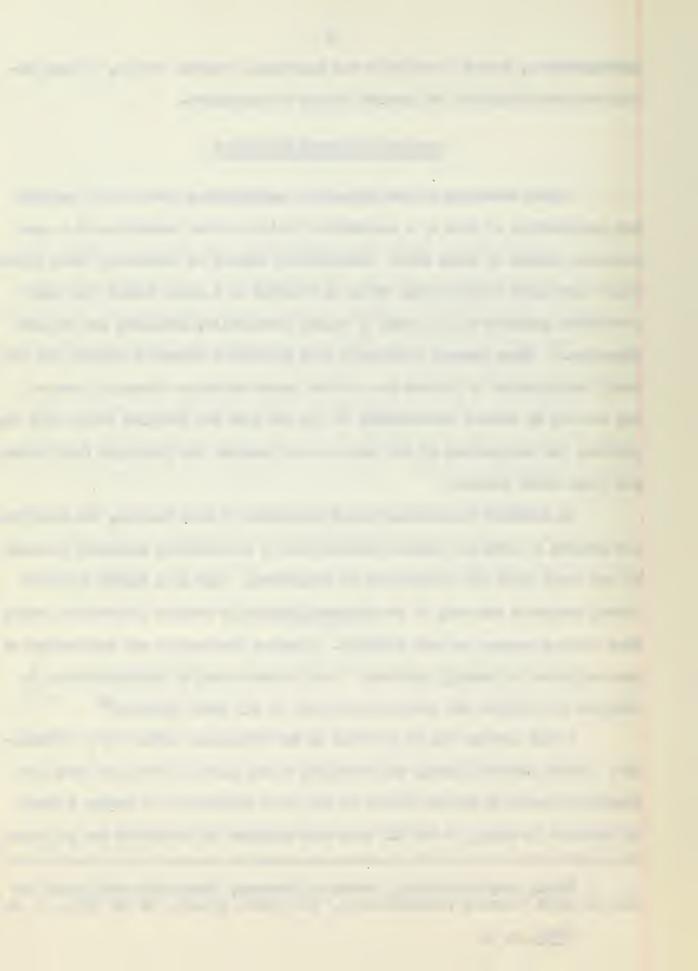
from various sources be best detected. Allewise evenly ing and explication of

data collected is readily isolated. The ultimate goal of computed orghic is

complete interpation and inter-relationship of all staff efforts. "2"

Ler. Leftre controllership was developed to the place it was to today in
formation from many sources flowed to the legat community. It become a there
in his side in trying to the all this data together and to detact the relations

²¹bld, p. 3.



and inter-relations existing in this intelligence. Through the Comptroller the commander is relieved of the spade work. The Comptroller collects intelligence, interprets and analyzes it for his commanding officer. The commander's responsibilities remain unchanged but his decisions are now based upon a meaningfull collection of information accommanded by recommended or alternate courses of action.

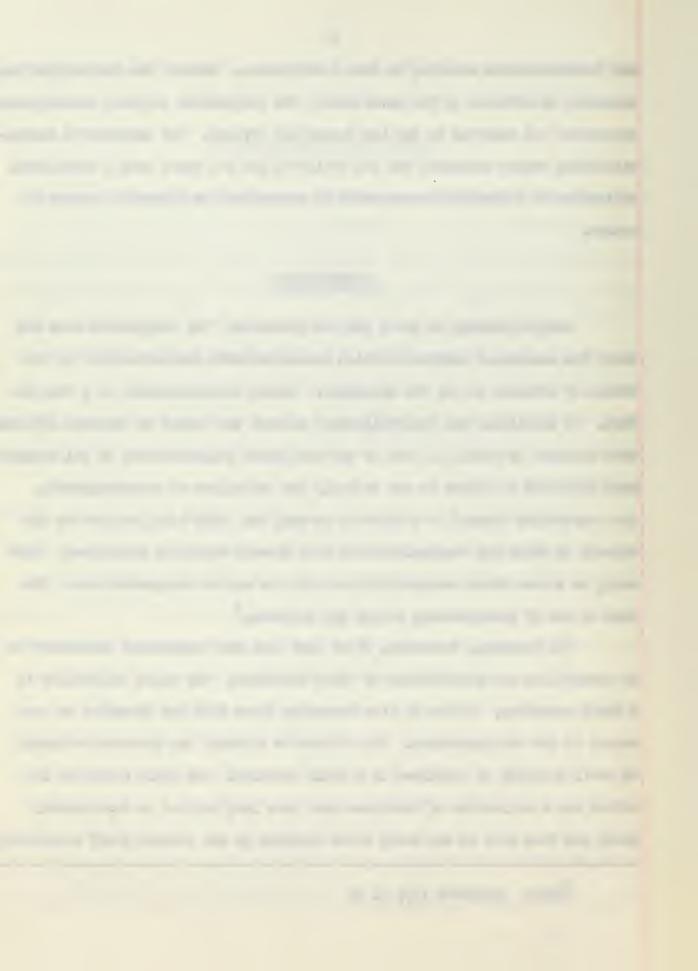
Coordination

carry the management responsibilities associated with comptrollership by the Bureau of Ordnance on his own shoulders. Lather comptrollership as a team of fort. In instilling the comptrollership concept the ureau of ordnance enterts were directed at making it part of the san journt responsibility of all management officials to adhere to and to a ply the principles of comptrollership.

The Comptroller hissoif is a means to an end, his title being related to the science to which his responsibilities as at closely associate themselves. Nowever, he shares these responsibilities with the entire management team. His role is one of computation, advice and middence.

an integration and coordination of staff functions. The Depot Comptroller is a staff executive, he has no line arthority other than the direction of presound in his can department. His enforts to maintain the inter-relationship of staff activity is perfermed in a staff capacity. The staff functions involved are a collection of fan tions that have long existed at departmental level and that have or are being drawn to other in one compact staff operation.

³mid. molosure (1), p. 2.



hany of these functions still emist in the arious separt into; no riveless, to data must flow into the constroller or an ation so that the information resulting from this staff effort of so eral departments can be to to jother and inter-related before a forecast, interpretation, or recommendation can be made to the commender.

est the subtle yet real res one lility of a depot country or reale us, a littlemal - hands should be place on the environment in which the for troller fir a himself. In the cia founde he is situated between the andin officer and all depure at home of the author the Ordnesce repartment and the let am local be at an as well as all sulf lepartments ind perdently perform I committee functions. Coordings in between departments was a matter of the metalice or was account shad by vehiclary coo ration between executions. The thouse that a for all or ar taken to non-existent even though the functions may have been effectively enformed. fach desert at head was his can con trolfer and he guth red data, analysed, interpreted, reported and record of d to the commanding will cor. The lot aling Officer was confronted with unecondimate' representation from each of his staff officers. We therefore becare is to go dister and found him lift ore often than not buried in an avalanthe of ficts and figures, forecasts and rocare dations which oftentiles were controlled unrolately the correction Officer was in a position of having to enhabite this most of tata at the sucrifice of more in crient command dails. The Compareller, in taking his position on the do mandin differer's stalf, because his rincipal staff aller. to fills in a truck gap by relaying the intelligence received from the ridpart ento to the Commander officer in constituted and intend 101 ferm.

feing a suff relay point b but it the canadier and his staff, he Comptroll r, to do an elfective jo, and have access to all door a me.



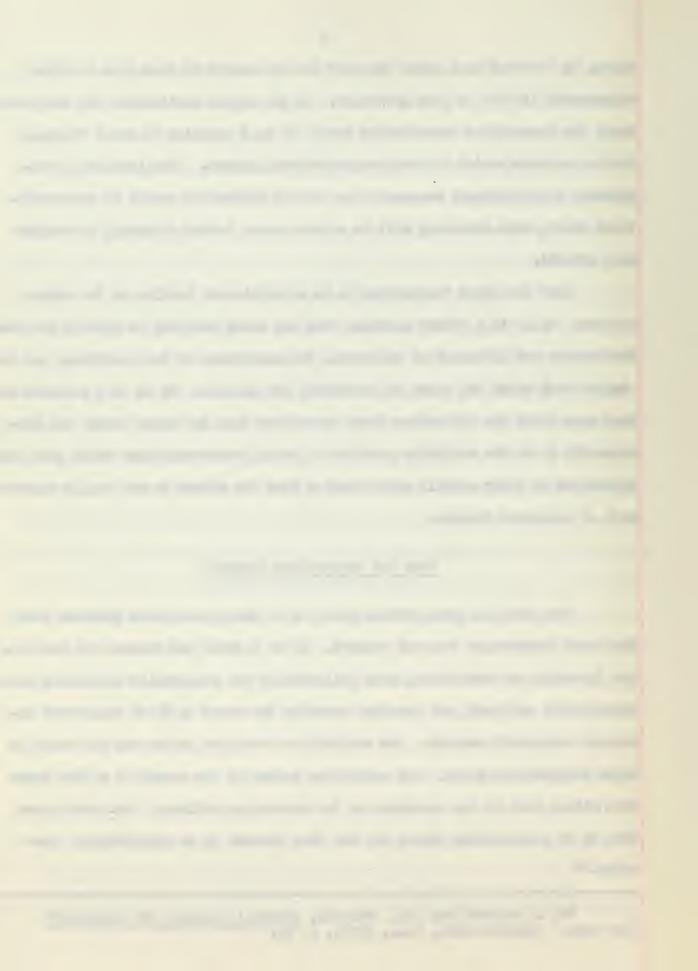
Again, he operates in a stail of actify and any access he does not to other do artments is void of him adverter. If the product environments has been ureated, the constroller equalitation should be in a position to true do retain faults or inalequacies to other or, initialized so real missimples or inalequacies to other or, initialized so real missimples or or other crossing organizational components and should take tell result in recommentations which, when executed, will be a sub-loss and sector finalcle or in age-ment control.

This the lept despiration is in a position of looking at the mode with me is in a position than any other critical to one rue the effectiven as and influence of decisions, the sappumess of the correlan, and the de rowith which the dept is affording its mission. We is in a position to know more about the collective to the minimal than any other amount consequently is in the attirable position of their recommendations which give consideration to their overall offect rather than the effect on any single consent or component thereof.

Does the .a troller courely

the sepot Comptron or does not control. The is a starf can through and through. The firmheial and statistical data collected by the compareller depart in twien interpreted, analyzed, and restrict articles the least by which name is not according to an appearance position the areas in which deficiencies exist. The correction estion is the result of a line decimal of the relation of an organisation class, and the line contains a an organisation class, and the line contains and organisation class, and the line contains and the line contains and organisation class.

^{45.} La porti and J.T. Thurston, internal and ting for a market (see forks rentice-chall, one., 15), ... IJ.



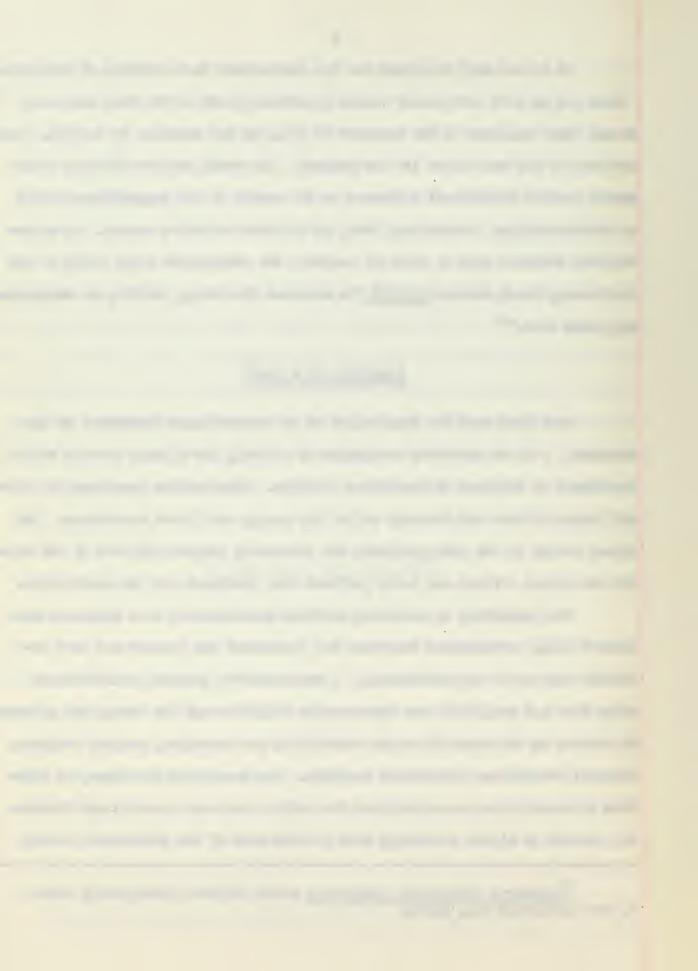
ciple but he must continually rating department heads of the fact that even though their business is his business he is in no way aspiring to control. His actions are his best proof in this respect. The staff service afforded by him should provide directical influence as the result of his suggestions, a vice or recommendation. Fernancian, then, is his most affective meapon. As an co-casional residuer that he does not central, the comptreller of his refer to the dictionary, which relates central "to exercise directing, priding, or restraining power over."

Preschions at a Depot

countant. Such an erroneous conclusion is natural, for a large portion of his department is composed of accounting services. This portion comprises the fiscal branch of what was formerly called the supply and fiscal department. The fiscal branch in the past performed the accounting responsibilities of the supply and fiscal officer and today performs like functions for the comptroller.

The accounting or recording services are essential to a financial management plan, invertheless they just not everchades the broader and less definable aspects of comptrollarship. A comptroller's greatest contributions arise from his analytical and interretive abilities and the advice and guidance he ren ers in the areas of bajet formulation and execution, program analyses, internal reviews and statistical analysis. The assounting functions, in addition to establishing accountability for miblic funds and property and furnishing reports to higher authority, also provide most of the information through

Suebster's Collegiate Dictionary, Fifth Edition (Springfield, Lass.: O. and C. Norrian Co., 1980).



which the comptroller performs his interpretive and analytic functions.

Thus the functions of a depot comptroller are generalized under two major captions: reporting, analysis, and interpretive; and accountin. The reporting, analysis, and interpretive functions are primarily directed at solution of management policy problems. The accounting function is related to problems of fiscal policy.

"Comptreliers have no business of their cam, but everybody's business is their business in the sense that they are prepared to enalyze it deliarwise for management." The comptreller's problems, then, are first related to fiseal policy and then to management policy. The comptreller's functions evolve from those policy areas. His functions are designed to record the fiscal information which, when properly reported, interpreted and analyzed, incide econcary and efficiency.

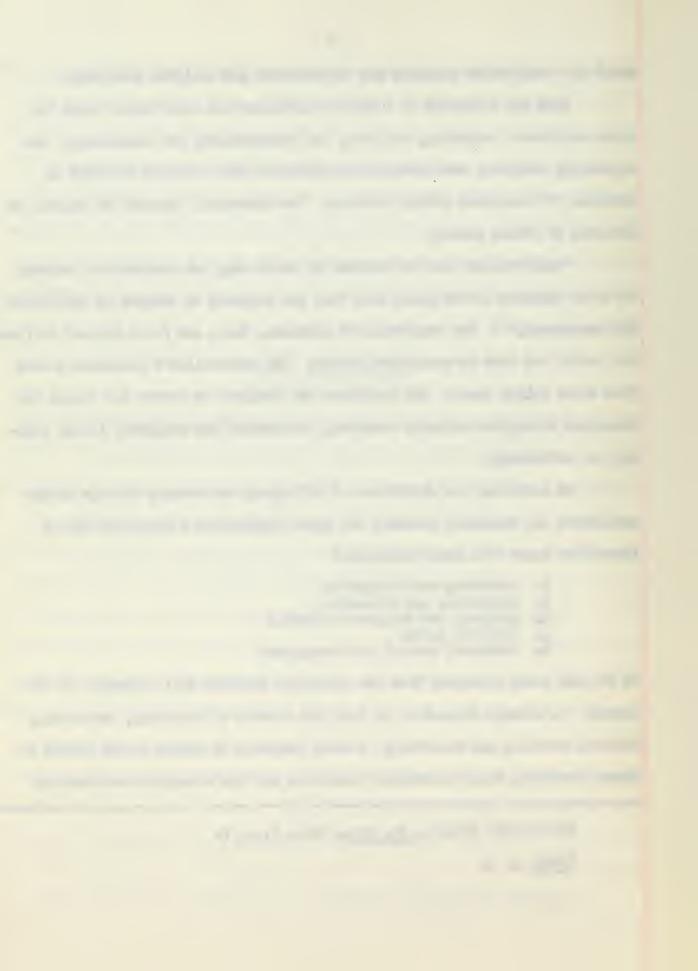
In achieving the objectives of efficiency and economy through better management and financial control, the depot comptroller's functions may be identified under five major headings: 7

- 1. Dangoting and Statistics
- 2. Accounting and Dicharding
- 3. Analysis and Progress rejerting
- h. Internal Beview
- 5. Financial control arri management

It is with these functions that the remaining Chapters will generally be concerned. He attempt is made to go into the details of budgeting, accounting, internal auditing and reporting. Father, emphasis is placed on the nature of these functions, their individual importance and the atmosphere surrounding

CHAVORDINGT S450.5A, op. cit., Encl. 1, p. 7.

⁷ mild. p. 7.



them. All discussions will be directed to bringing into its proper perspective the job of an armunition depot comptroller.

Comptroller e stant unmnisation

The Bureau of Ordinance has endeavored to pure so the Kevy policy of horizontal functional control at each level of management in lieu of centralized functional control or designation of prescribed or anisational patterns. In keeping with this policy the organization of the large coastal Daval Assumition Depot to the division level has been prescribed by the bureau. Transcribed below the division level is a command prerogative.

Having identified the depot comptroller's major functions, a test of the prescribed organization can best be made by fitting those functions into the organizational structure. The positions or divisions prescribed for the comptroller deportment are as follows: 10

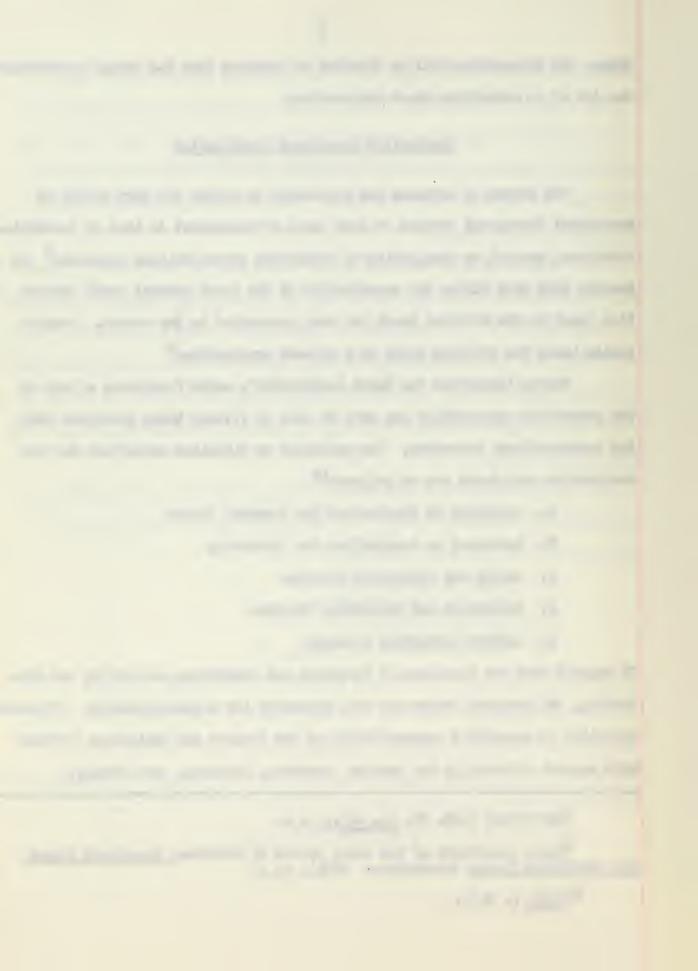
- 1. Assistant to Comptroller for Internal seview
- 2. Assistant to Comptroller for disharsing
- 3. Buigot and Statistics Division
- 4. Accounting and Disbursing division
- 5. Rachine Accounting Division

It appears that the functions of bulleting and statistics, accounting and disbursing and internal review are well accounted for a punicationally. To press reporting to nameally a responsibility of the Dalgets and Statistics of their with support afforded by the Lachine Accounting Mivision. And finally,

Samulanting Shift. Sh, op. cit., p. 2.

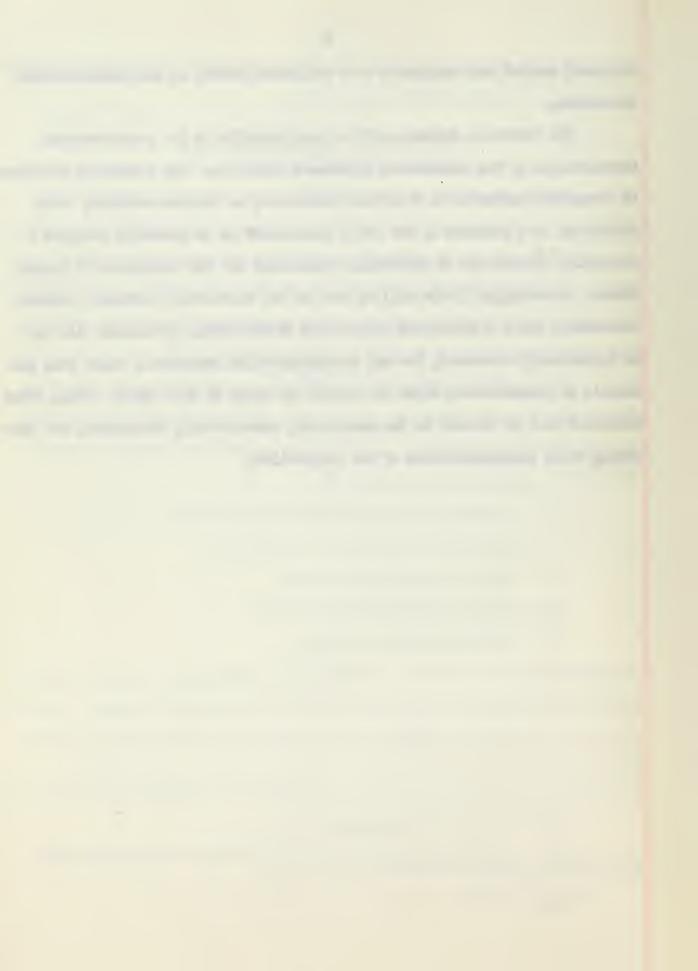
⁹J.S., Department of the Davy, Europu of Ordenace, Languerent anni for Arrention Depote (Washington: 1996), p. 3.

¹⁰ Told, p. 3.13.



financial centrol and management is a collective effort of all organizational components.

fragmentation of the comptroller department functions. The distincting function is frequently performed as a service function by an outside activity. Then disbursing is a function of the de of comptroller be in generally assigned a disbursing officer who is personally accommable for his management of public funds. Accordingly, little will be said of the disbursing function. Eaching accounting, being a mechanised application of accounting principles will not be specifically discussed, for any discussion would necessarily selve into the details of mechanisation which is outside the scope of this paper. Thus, prince attention will be devoted to the analytical, interpretial, forecasting and budgeting staff responsibilities of the comptroller.



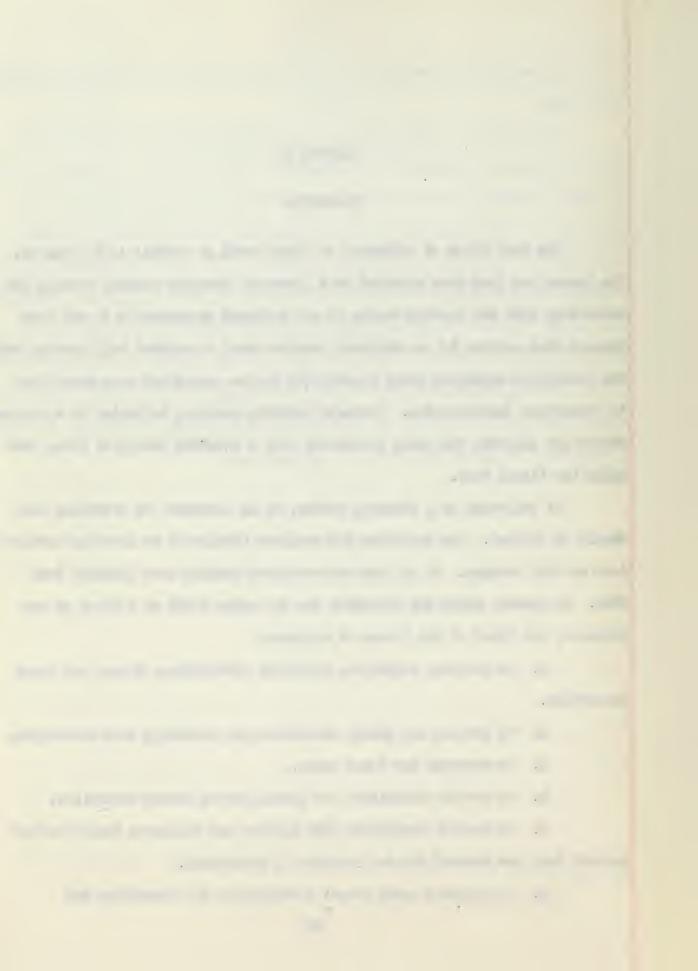
Will more Til

And the second

The budget has long been regarded as a financial struggle between bureus and activities with the bureaus trying to cut budgeted requirements to the bone through what appears to be artitrary tactics based on crystal ball gazing, and the activities employing every conceivable device, so these even deception, to strengthen justification. Preserly handled, however, budgeting is a logical device for planning the depot operations over a specific period of the, normally the fiscal year.

If buildeting is a planning device, it is mecessary to determine what should be planed. For too often the assigned mission of an activity gathers dust in file drawers. It is from this assigned mission that planning must stem. In general terms the following are the major tasks of a dejot as assigned by the Chief of the B resu of Ordnance:

- 1. To receive, sogregate, saintain, recommittee, store, and issue expansition.
 - 2. To produce bag charge arountflow and cartridge case assumition.
 - 3. To assemble and insue minrs.
 - h. To provide facilities for clading sime about submitnes.
- 5. To provide as unition thin lo ling and discharge facilities and control army use thereof for the handling of assumition.
 - 6. To sintain under proper purceillance the arramition and



amplosives in store.

7. To dispose of unserviceable and/or dangerous amunition and explosives, from whatever sources received in accordance with current directives.

The Depot's mission as expressed above is in effect a list of objectives. It is from these objectives that a financial budget plan is ultimately constructed.

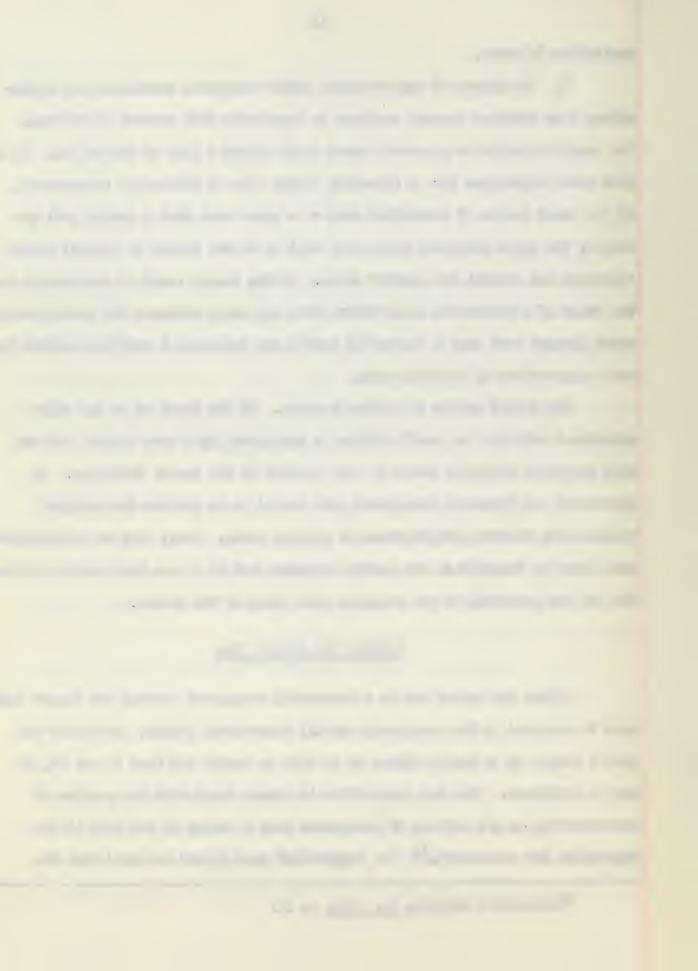
If the Depot issues of emunition were at a price such that a profit goal was sought, the Depot budgeting could very well be on the DuPont or General Motors "planning and control for profit" basis. Or the budget could be constructed on the basis of a ferecasted sales volume with all depot expenses and manufacturing costs planned such that a reasonable profit was realized, a practice pursued by most corporations of moderate size.

The profit motive is lacking however. At the Depot as at any other government activity the profit motive is supplanted by a more obscure but not less important objective which is also present in the profit objective. In government our financial management goal should be to perform the assigned mission with maximum effectiveness at minimum costs. True, this as an objective not nearly as tangible as the profit objective but it is one well worth striving for and one essential to the economic well leing of the mation.

Lelling the Bulget Mes

must be accepted by top management and all supervisory levels. We matter how good a budget is in theory unless it is sold to people who have to use it, it may be worthless. Thus the Comptroller is always faced with the problem of communicating to all members of management what a budget is and what it can accomplish for management. The Comptroller must oppose the word that the

Hanvariner Sigo. Sa, op. cit., p. 11.

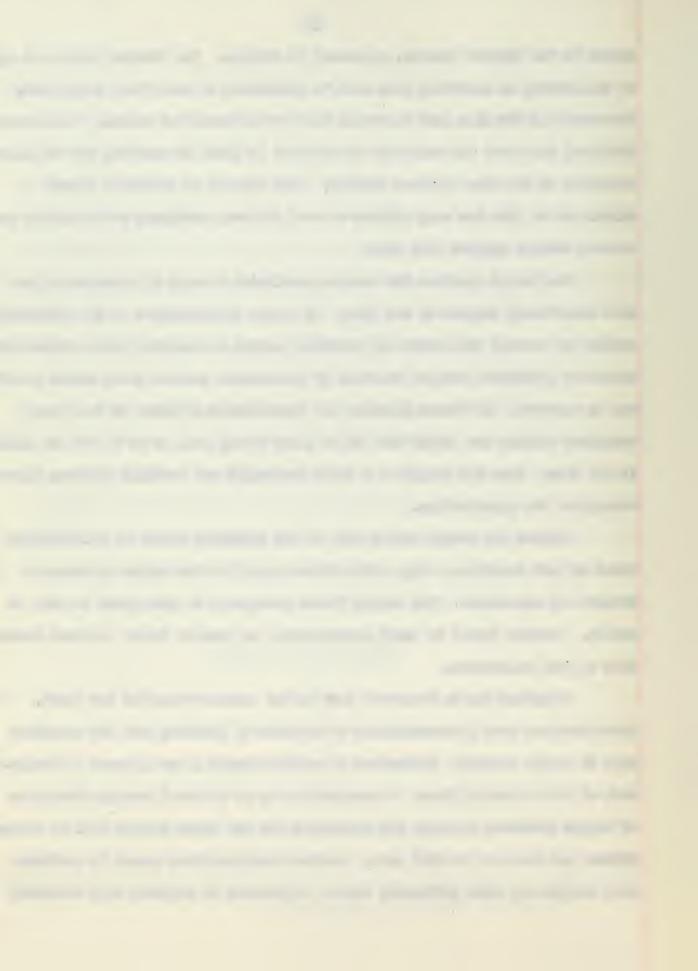


budget is the Depot's mission, expressed in dellars. The mission being made up of objectives, an operating plan must be formulated to meet these objectives. Conversion of the plan into financial terms constitutes the budget. Each organizational unit ones its oxistence to the part it plays in carrying out the plan. Deposition of the plan requires dellars. Only through an effective budget system can we plan how many dellars we need for ben, machinery and meterials and measure results against that plan.

The budget provides the course dentainator or unit of measurement for each supervisory segment of the plan. It forces consideration of the financial results of everall edjectives and provides control by assigning each responsible executive a definite task or standard of performance against which actual results may be measured. It forces planning and coordination of plans so that every compensat decides for itself that it is going to do, when to do it and how well it was done. Thus the budget is a joint horisontal and vertical planning effort throughout the organization.

Vithout the budget device many of the operating costs are calculations based on past experience only, with little regard for the degree of change a program may experience. The budget forces management to lock sheed as well as behind. Duigets should be based productivently on planned future programs ruther than on past experience.

Commissions down is accomplished by issuance of planning data and decisions made at budget reviews. Allocation of budgeted funks is an approval by management of the operating plane. Communications up is achieved through calmission of budget estimates advising top management how the depot mission will be accomplished and how much it will cost. Further communications upward is performed when reports are made reflecting actual performance as compared with estimated



performance. Herisontal communication is facilitated through budgeting. The Ordnance Department must make known its production expectations, saterial and personnel requirements. From this information Public Forks Department will need the estimate hauling requirements, Industrial Palations Department will need the manpower data and the Supply Officer will review his stock status. The Comptroller should be at the communications satisfactorial beeping track of everything.

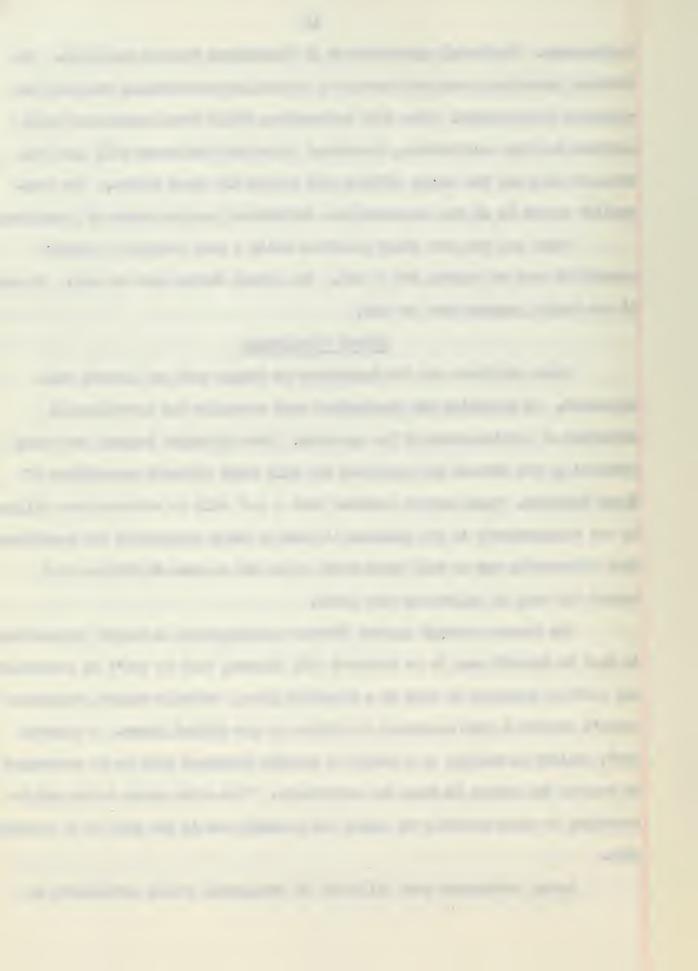
These and the many other functions which a good buildeting program accomplish need be pointed out to all. The budget device must be used. To use it the budget program must be sold.

eal of Formilation

intimated. In budgeting the comptroller must recognize the psychological advantage of participation by the operator. Nost effective budgets are those prepared by the foresan or supervisor who will cause ultimate expenditure of funds budgeted. Ruman nature dictates that a goal will be attained more willingly and cooperatively if the planning is done by those responsible for execution. Some elaboration may be well worth while since the success or failure of a budget may hang in balance on this point.

The common argument against foremen participation in budget preparation is that he doesn't want to be bothered with figures, that he isn't an accountant and can't be expected to work up a financial plan. Actually budget preparation doesn't require a plan expressed in dellars in its initial phase. A sap rvisor's agility in working up a budget is greatly increased when he is encouraged to prepare the budget in terms he understands. This makes sense to him and is something he would normally do anyway but probably not in the form of an orderly plan.

liaving determined that allievels of management should participate in



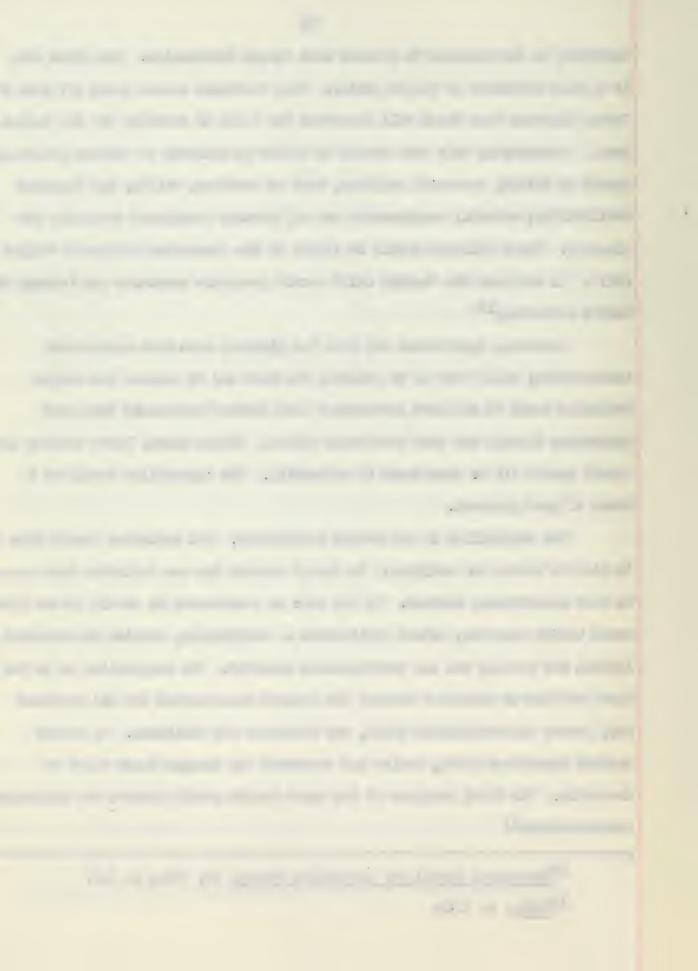
budgeting we are prepared to proceed with budget formulation. The first step is a clear statement of budget policy. This statement should start off with the Bureau planning data which will determine the level of activity for the budget year. Accompanying this data should be advice on priority of various programs, levels of effort, personnel policies, such as overtime, shifts, and manpower availability, material requirements and all factors considered requisite for planning. These policies should be issued in the Commanding Officer's "Budget call". In addition the "budget call" should prescribe standards and formats for budget estimates. 12

Operating departments now have the planning data with appropriate instructions; their task is to schedule the work and to prepare raw budget estimates based on standard performance data desired previously from past emperience through the cost accounting system. Bureau plans, known backlog and trends should all be considered in estimating. The comptreller should be a store of good judgment.

The comptroller is the budget coordinator. All estimates should flow to him for review and analysis. He should convert the raw estimates into terms he best understands, dollars. In his role of coordinator he should relate different budget segments, detect duplication or overlapping, provide departmental limited for ironing out any discrepancies detected. The comptroller is in the best position to determine whether the program requirements are all provided for, proper inter-relations exist, and estimates are realistic. He should consult department heads, advise and recommend any changes which sight be desirable. His final analysis of the Depot budget should include the following consideration: 13

¹² magazant Monaul for Assanition Depots, op. cit., p. 5.8.

¹³mid., p. 5.10.

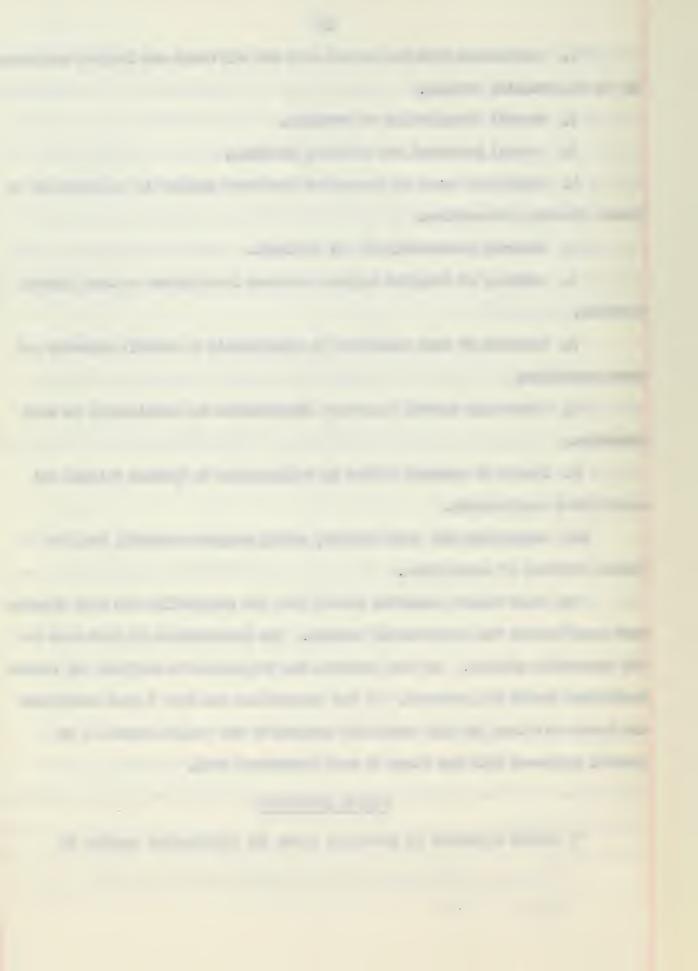


- l. Conformance with the budget call and all bases and factors considered in the departmental reviews.
 - 2. Overall distribution of workload.
 - 3. Overall personnel and staffing problems.
- h. Estimating bases or prescribed standards applied in relationship to Dureau planning information.
 - 5. Internal Lalance-direct vs. indirect.
- 6. Adequacy of buigeted support services in relation to total direct
- 7. Sequence of work schedules in relationship to overall capacity and work priorities.
- 8. Long-range capital equipment requirements in relationship to work schedules.
- 9. Levels of budgeted effort in relationship to optious volumes and established requirements.
- 10. Comparison with past budgets, costs, progress records, etc. to insure validity of accumptions.

The Depot Dudget Committee should hear the comptroller and each department head present the departmental budgets. The presentation is then made to the commanding officer. In both hearings the Comptroller's analysis and recommendations chould be presented. If the Comptroller has done a good analytical and human relations job his views with respect to the budget should be in general agreement with the views of each department head.

Dulgot assertion

"A buiget expresses in nuscrical terms the anticipated results of

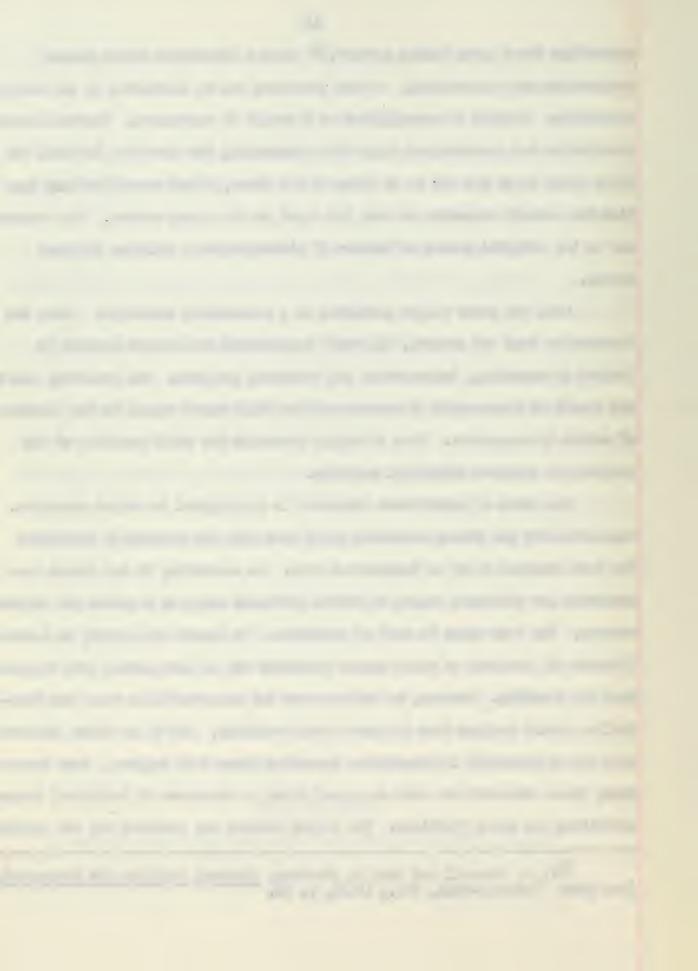


operations for a given future period. It buck a definition covers budget preparation and presentation. Endget execution can be identified by one word, - comparison. Control is accomplished as a result of comparison. There as budget formulation and presentation deals with forecasting the direction in which the bepot plans to go and how it is going to get there, budget execution must provide the control necessary to keep the Depot on the proper course. This course may be the budgeted course or because of circumstances a modified budgeted course.

Comptroller does not control, his staff association with burget control is limited to recording, interpreting and reporting progress. His reporting might and should be accompanied by recommentations which might result in the directing of action by management. Thus in budget execution the stuff position of the Comptroller receives additional emphasis.

The value of established standards is highlighted in budget execution.
Hesponsibility for fixing standards might rest with the department performing the work measured or by an independent unit. In accounting it has always been desirable for different people to handle different steps of a system for various reasons. The same might be said of standards. To assure objectivity in establishment of standards it would appear desirable for an independent unit to perform the function. Mosever, no entire where the responsibility rests the Comptroller should analyze them to assure their validity. For it is these standards that are so essential in translating operating plans into budgets. More important, these standards are used as a yard stick to determine if individual responsibilities are being fulfilled. The budget becomes the standard and the reports

New York: Prontice-Wall, Inc., 1953), p. 56.

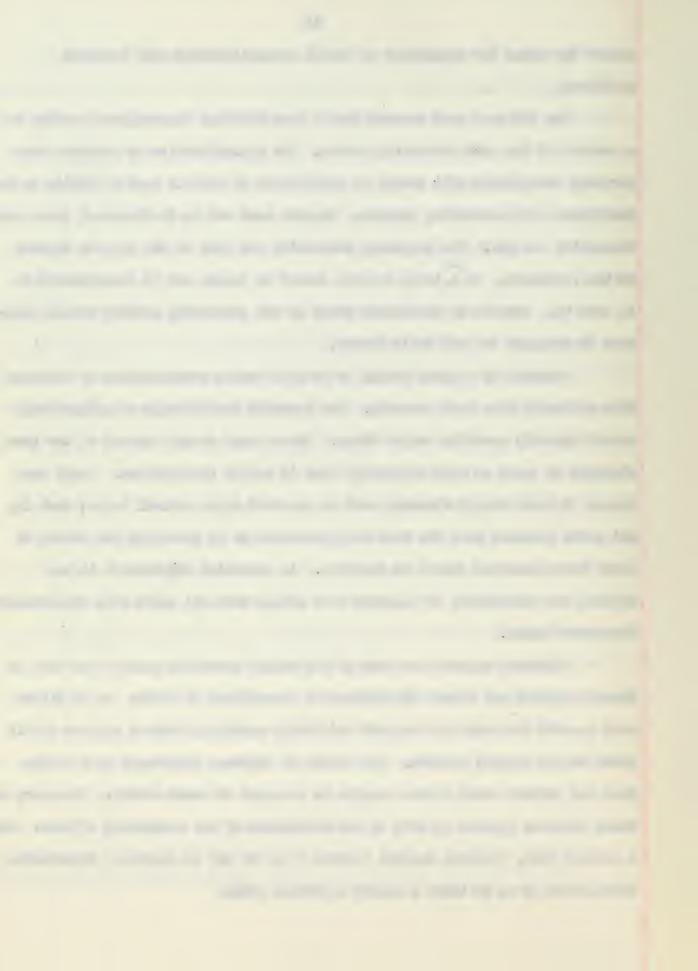


afford the seans for comparison of actual accomplishments with budgeted staniards.

For the most part reports should cone from the Comptrollor's office as a product of the cost accounting system. The classification of accounts when properly constructed will result in compilation of data in such a fashion as to facilitate cost accounting reports. Reports med not be in financial terms and frequently are not. The langua e, complexity and type of the reports depends on the recipient. At z_{Λ} level reports should be simple and in denominators be in used to. Reports to department heads or the commanding officer should likewise to designed to suit their tastes.

Contents of reports should be no more than a survarisation of information extracted from cost accounts. The accounts individually or collectively
should identify specific bulget items. These items should consist of the same
elements of costs as were originally used in bulget formulations. Costs contained in these bulget elements must be reported on an account busie; that is,
all costs incurred over the time being measured or in producing the masher of
units being measured should be included. An easertial requirement in the
reports are comparisons of bulgeted with actual work and costs with significant
deviations noted.

Allotment reports are part of the budget execution phase since they do report budgeted and actual obligation and expenditure of funds. As in allotment reports the need for frequent and timely reporting methods applies to all other budget control reports. The Eurem of Ordnance recommends that allotment and project order status reports be prepared at least weekly. Frequency of other internal reports is left to the discretion of the commending officer. As a general rule, internal control reports to be of use to operating departments should also be on at least a weekly reporting cycle.



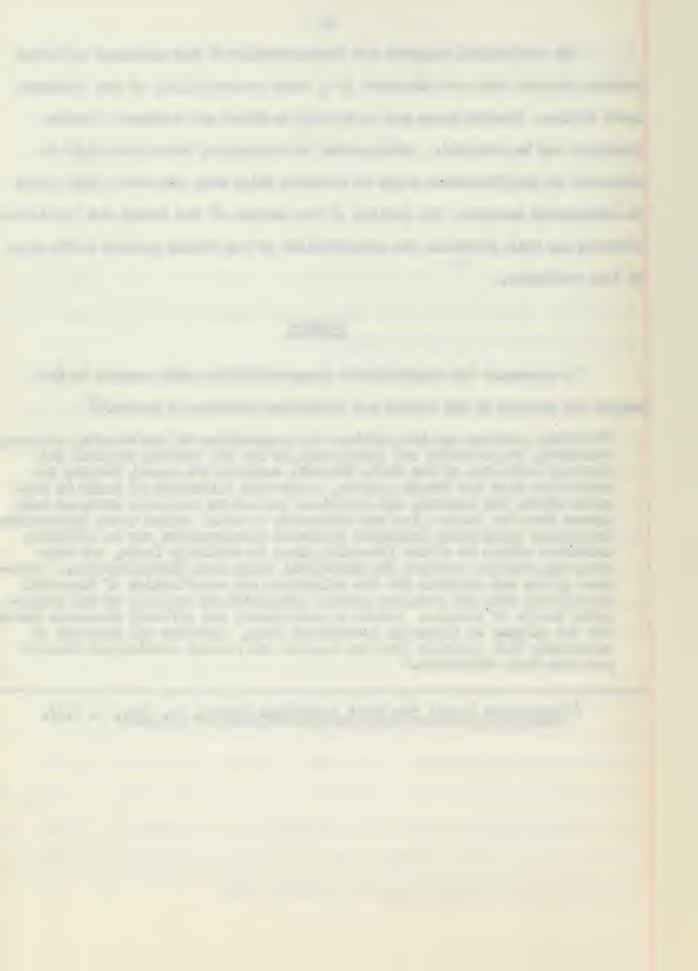
The statistical analysis and interpretation of the variances reflected between recorded data and standards is a prime responsibility of the Comptrol-ler's office. Trouble creas can be quickly isolated and analysed. Faulty standards may be detected. Inadequacies in forecasting techniques might be uncovered or inefficiencies might be detected which when corrected will result in substantial savings. The quality of the service of the Daiget and Statistics Division may well determine the acceptibility of the budget process in the eyes of line officials.

Surmry

To exemurize the Comptroller's responsibilities with respect to the budget the mission of the Budget and Statistics Division is quoted. 15

"Provides guidance and instructions for preparation of the bulgets, reviews, resources, requirements and justifications for the various programs and prepares estimates of the costs thereof; compiles the armual bulget; in connection with the budget process, recommends allocation of funds to programs within the comment, and revisions thereof as required; analyses variances from the budget plan and recommends remedial action where appropriate; determines areas where decirable financial reprogramming may be effected; initiates action to adjust financial plans to available funds, and when required, submits requests for additional funds with justifications. Developes guides and criteria for the collection and coordination of financial statistical data and prepares special statistics as required by the responsible levels of comment. Serves as coordinator and official clearance center for the release of financial statistical data. Provides all echelons of management with periodic progress reports and special statistical data on programs they administer."

¹⁵ Management Manual for Maval Amaunition Depots, op. cit., p. 3.13.



COMPAN III

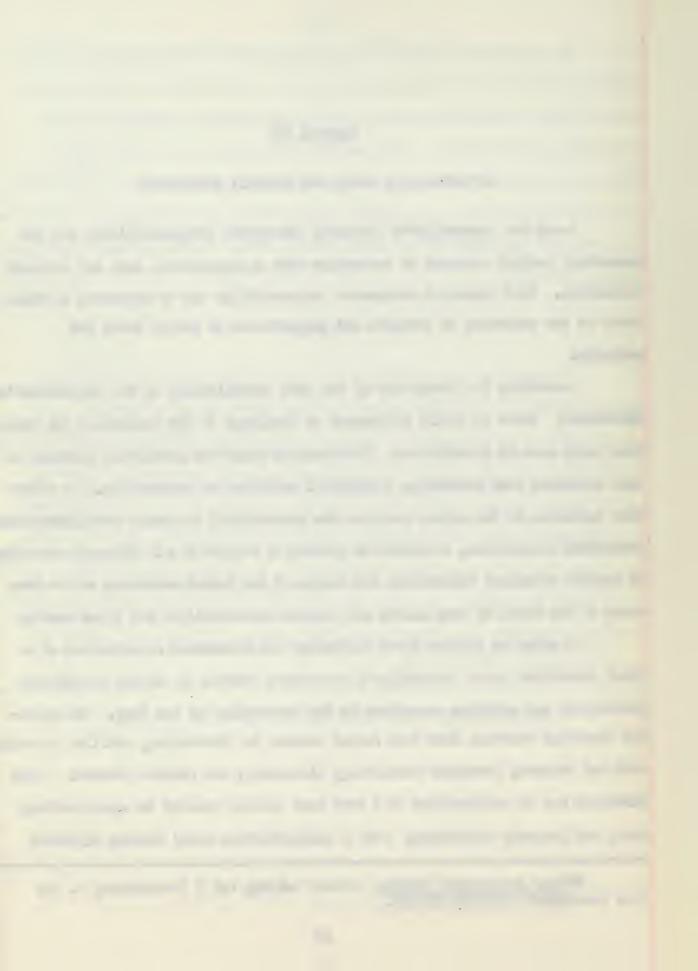
APPROPRIATION, CLUT, ALD ADPLIET ACCURATING

Among the Comptroller's financial management responsibilities are the accounting methods required in connection with appropriation, cost and property accounting. This financial management responsibility may be expressed in other terms as the reporting of receipts and expenditures of public funds and property.

Accounting is perhaps one of the more unchallenging of the Comptroller's activities. There is little excitement or challenge in the accounting job other than being sure it is well done. This however makes the accounting function no less important than budgeting, statistical analysis, or forecasting. An effective operation in the sphere provides the wherewithall to insure compliance with prescribed regulations, to establish systems of budgeting and allotment controls, to provide macessary information for hureau of the Budget estimates and to keep track of the worth of many assets and provide accountability for these assets.

In order to achieve those objectives the accounting organization of a Naval Assumition Depot Comptroller's Department adheres to certain principles, procedures, and policies prescribed by the Comptroller of the Navy. The specific functions evolving from this source pertain to time eping, civilian payrolls, cost and reports, inventory accounting, disbursing, and machine records. These functions may be reclassified to a form more closely related to appropriation, east, and property accounting. Such a classification would include allotment

U.S. Government Frinkling Office).



accounting, stores accounting, cost accounting, and plant property accounting.

It is only the appropriation and cost accounting functional categories with which this desptor will deal since they been a strong relationally with unternal controls.

Appropriation Accounting

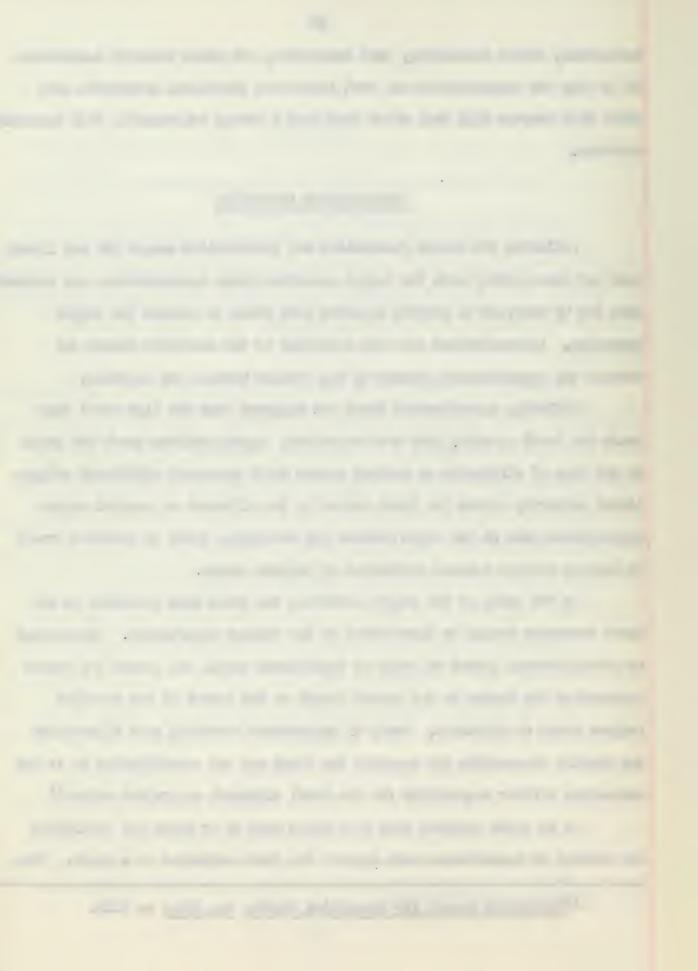
Following the budget furnilation and presentation stages for any flucal year and concurrently with the budget execution phase appropriations are exacted into law by Congress to provide agencies with funds to finance the budget execution. Appropriations are made available to the executive branch and through the apportionment process to the various bureaus and a states.

reach the level at which they were requested. Appropriations reach the day of in the form of allocateds or project orders which represent additional obligational authority within the limit stated by the allocated or project order. Expenditures made at the day of whether for materials, labor or services result in lodging changes against allocated or project orders.

depot communion should be distributed to the various departments. Allocations or sub-allotsents issued to heads of departments should not exceed the amount approved by the bureau in the annual budget or the amount of the specific project order or allocations. Needs of departments receiving such allocations are legally responsible for accuring the funds are not ever-obligated as is the commanding officer responsible for the total allocations or project order. 17

It is quite apparent that some means must be in force for regulation and control of expenditures made against the funds entrusted to a depot. This

¹⁷ Management Manual for Assamition Depots, op. cit., p. 5.12.



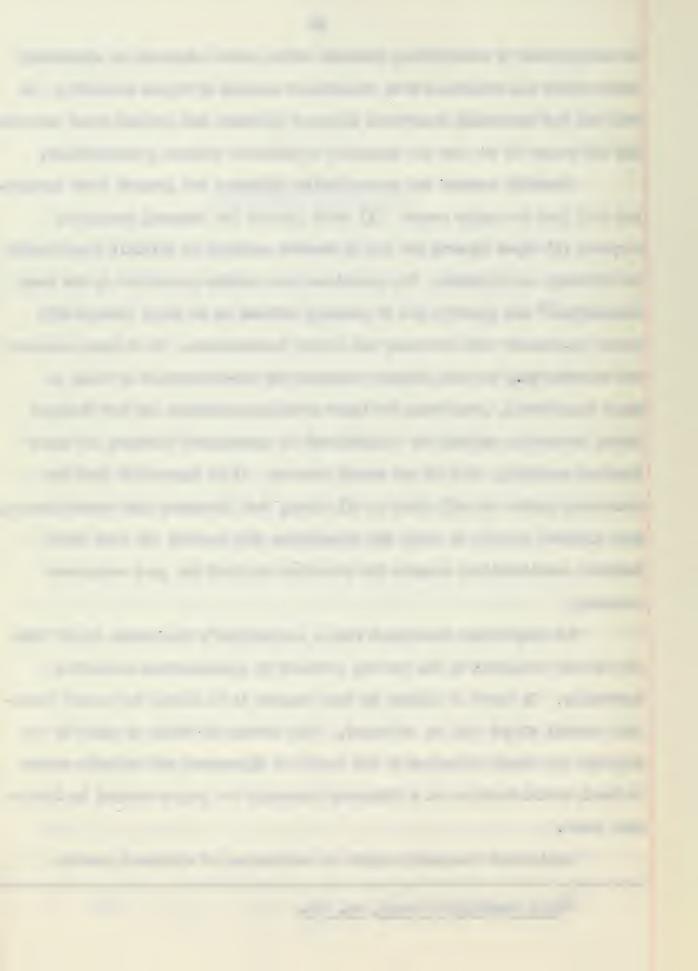
is accomplished by establishing controls which ensure adherence to statustory requirements and compliance with regulations imposed by higher authority. To this end the accounting department performs allotment and project order accounting and causes to be made the necessary adjustments between appropriations.

Financial reports for appropriation allotment and project order accounting fall into two major areas: (1) depot reports for internal management purposes (2) depot reports for use by outside agencies to fullfill departmental or statutory requirements. The procedures and records prescribed by the Nevy Comptroller 18 are specific and if strictly adhered to in their details will assure compliance with statutory and agency requirements. It is also measurey and expected that we have adequate measures for sub-allocation of funds to depot departments, procedures for their obtaining materials and for charging labor, processing methods for obligational or expenditure vouchers and other internal controls. This is not enough however. It is importative that the accounting system be well oiled at all times, that documents flow expeditionally, that internal reports be given the recognition they warrant and that other internal considerations receive the attention required for good ramagement controls.

The Comptroller Department from a comptroller's view point chould then devote much attention to the service provided by appropriation accounting internally. If there is failure in this respect it is likely the entire financial control effort will be sabetaged. This service of which we speak is the accurate and timely reporting of the status of allotments and projects orders to local administrations at a frequency necessary for proper control by department beeds.

Duplication frequently exists in maintenance of allotsent records

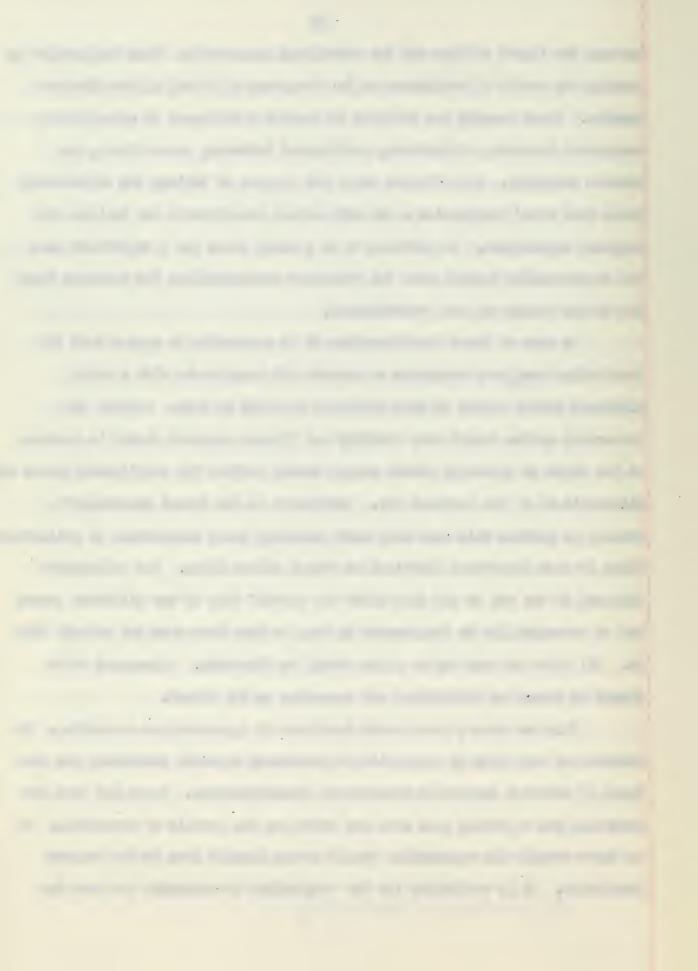
¹⁸ Mary Comptroller Manual, op. cit.



between the fiscal offices and the individual departments. This duplication is assuably the result of tardiness and low frequency of fiscal office allotment reports. These reports are intended to provide a statement of expenditures, unexpended balances, obligations, unobligated balances, reservations, and smounts available. Jush figures serve the purpose of telling the departments where they stand budget-wise - how well actual expenditures are in lime with budgeted expenditure. In addition it is a ready check for a department head who is personally charged with the statutory responsibility for assuring funds put in his charge are not overgbligated.

In view of those considerations it is reasonable to expect that the Comptroller band over backwards to provide all departments with a briaf allotment status report at time intervals suitable to them. Further the accounting system should have vitality and figures reported should be current. At the Depot an allotment status report should reflect the unobligated status of allotments as of the previous day. Confidence in the fiscal department's ability to perform this task will next assuredly cause abandorment of obligation files in each department identical to fiscal affice files. The obligations incurred in the one or two days after the cut-off date of the allotment report can be accounted for by departments as long as they know then the cut-off date is. All stubs on that day or prior should be discarded. Subsequent stubs should be viewed as obligations not appearing on the report.

This has been a broad bruch treatment of appropriation accounting. He mention has been made of appropriation summaries, material summaries, the analysis of material summary by expenditure classifications. Forms are used for recording and reporting such data but these are the details of accounting. It is these details the comptroller should detach himself from to the maximum permissive. It is sufficient for the comptroller to recognise the need for

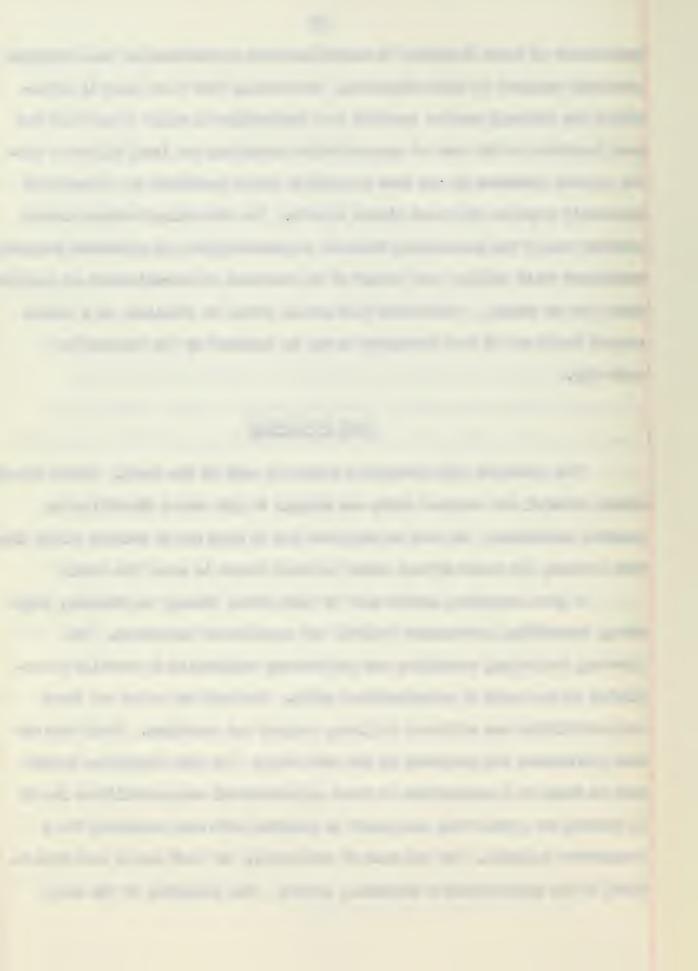


performance of these functions in accordance with regulations and has qualified personnel assigned to those functions. Descripting that this paper is a phasizing the internal service provided by a comptrollar it would as our that the most important in the area of appropriation ascounting are local allotment status reports generated by the same accounting a stem perfected for preparation enternally requires allotment status reports. The accounting Division should consider one of its fundamental internal responsibilities for affective internal management to be telling each holder of an allotment or sub-allotment or project carlot how he stands. Furthermore this advice should be furnished on a strict current basis and of such frequency as may be required by the responsible authority.

with rankliking

The job-order cost accounting system is used at two Nepet. Direct labor, direct material and overhead costs are charged to job orders identified to specific operations. We work is performed and no work can be charged unless the work request, job order or work order has been issued to cover the work.

A cost accounting system must be tied rather closely to planning, budgeting, scheduling, performance analysis and appropriate accounting. The planning, budgeting, scheduling and performance combination is normally accomplished on the basis of organizational units. The work for units and their responsibilities are reflected in plans, budgets and schedules. Their individual performance are evaluated on the came basis. The cost accounting system must be keyed to a recognition of these organizational responsibilities for it is through the system that management is provided with data necessary for a comparative analysis. For the sake of simplicity, the cost system must also be keyed to the organization's accounting system. Pata collected by the cost



system when summarized should be suitable for application to the accounting

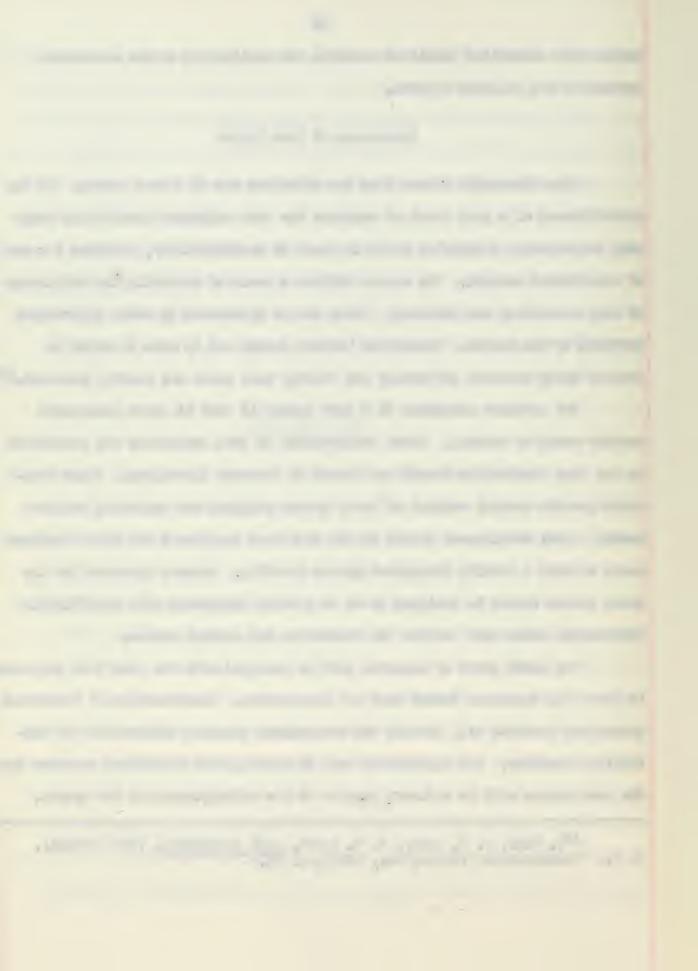
Advantages of Cost System

establishment of a good chart of accounts the data collected facilitates builtestablishment of a good chart of accounts the data collected facilitates builtestal comparisons, identifies costs in areas of responsibility, provides a means
of coordinated control. The system affords a means of measuring the efficiency
of ron, raterials, and machines. Meste can be eliminated by using information
provided by the system. Comparison between depots can be made in order to
measure their relative efficiency and finally unit costs are readily obtained.

The greatest advantage of a cost system is that it gives new penent another means of control. Broad equirements of cost accounting are prescribed by the Navy Comptreller annual and recur of Ordneres directives. These documents provide central control of basic system employed and reporting requirements. Local development should in ill instances supplement the above requirements so that a totally integrated system provails. Reports generated by the local system should be designed so as to provide management with intelligible information which will provide the foundation for control action.

The local duart of accounts must be designed with the idea that they are to corve the operators rather than the accountants. Summarination of individual subsidiary accounts will provide the accountants adequate information for controlling accounts. The objectivity used in establishing subsidiary accounts for the cost system will be a direct measure of the effectiveness of the system.

¹⁹A. Laba, U. J. Curry, C. . Frank, Cost Accounting, (New Federalle, N. Y.: Couthwestern Frinting Co., 192), p. 22.



Different considerations govern establishment of accounts, records and reports for the different levels of management. What is shown to the communing officer will differ considerably in detail, length and terms from what is presented to shop forwarm.

Defore leaving this subject a general understanding of the Dureau of Ordnance cost accounting concept is essential. Thus the following discussion, based on a Dureau of Ordnance directive, 20 will be directed at an explanation of the system with particular emphasis on the handling of indirect overhead.

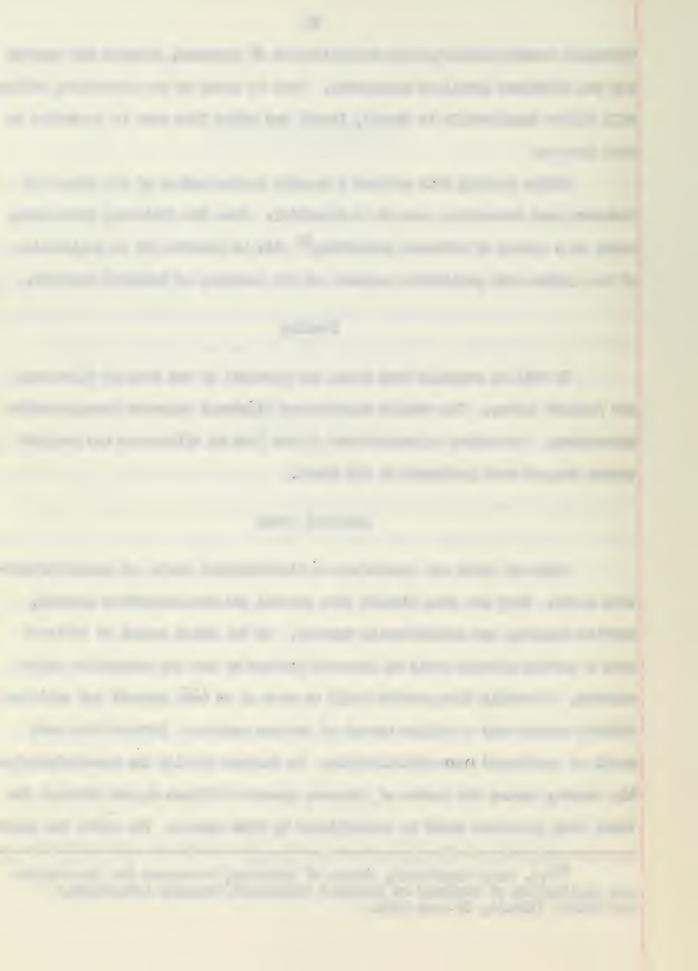
Funding

It will be recalled that funds are provided in the form of allotments and project orders. The station maintenance allotment supports non-productive operations. Productive authorisations in the form of allotments and project orders support work performed at the depot.

Indirect Costs

Indirect costs are classified as distributable costs and non-distributable costs. They are also divided into general and administrative expense, cervice expense, and manufacturing expense. Of the total amount of indirect cost a certain portion would be incurred whether or not any productive effort cristed. Cenerally this portion would be made up of next general and administrative expense and a smaller amount of service expense. Further this cost would be considered none-distributable. To further justify the non-distributable amount, assume the Dureau of Undance operates fifteen depots although the total work performed could be accomplished by five depots. The extra ten depots

²⁰U.S. Navy Department, Ruseau of Ordnence, "Procedure for Computation and Application of Overhead at Lodified Industrial Ordnence activities,"
WVO DIECT 7310.1A, 15 June 1956.



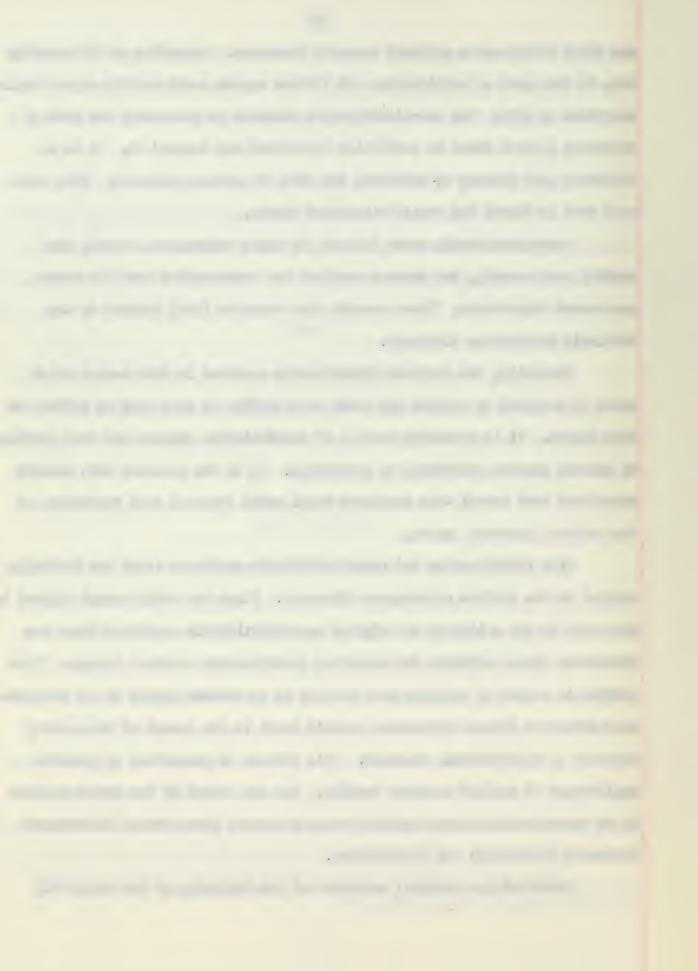
oue their existence to national security insurance. Operating at 30, capacity now, in the event of mobilization all fifteen depots could rapidly expand their operation to 100%. The non-distributable overhead is presumably the cost of operating a depot where no production activities are engaged in. It is an important cost because it indicates the cost of defense insurance. This overhead cost is termed the Basic Maintenance Amount.

Non-distributable costs include the Dasic Naintenance Assent, the capital requirements, and asseurts required for reinbaroible work for other government departments. These assembs also comprise final charged to the station's maintenance allotment.

Generally, the indirect distributable overhead is that amount which would be required to perform the total work whether it were done at fifteen or five depote. It is primarily made up of manufacturing expense and that pertion of service expense attributal to production. It is the overhead meet closely associated with actual work performed which would remain a cost regardless of the defense insurance aspect.

Both distributable and non-distributable overheads costs are initially charged to the station saintenance allotsent. Since the total secunt alloted to the Depot is the estimated or budgeted non-distributable over-head there are inadequate funds available for absorbing distributable overhead charges. This problem is solved by applying what emounts to an advance credit to the maintenance allotsent (Basic Maintenance Amount) equal to the emount of the monthly estimate of distributable overhead. This advance is liquidated by periodic application of applied overhead credits. The net effect of the credit entrees is to deduct estimated and applied overhead amounts from station maintenance allotment obligations and liquidations.

Distributable overhead estimates at the beginning of the month will



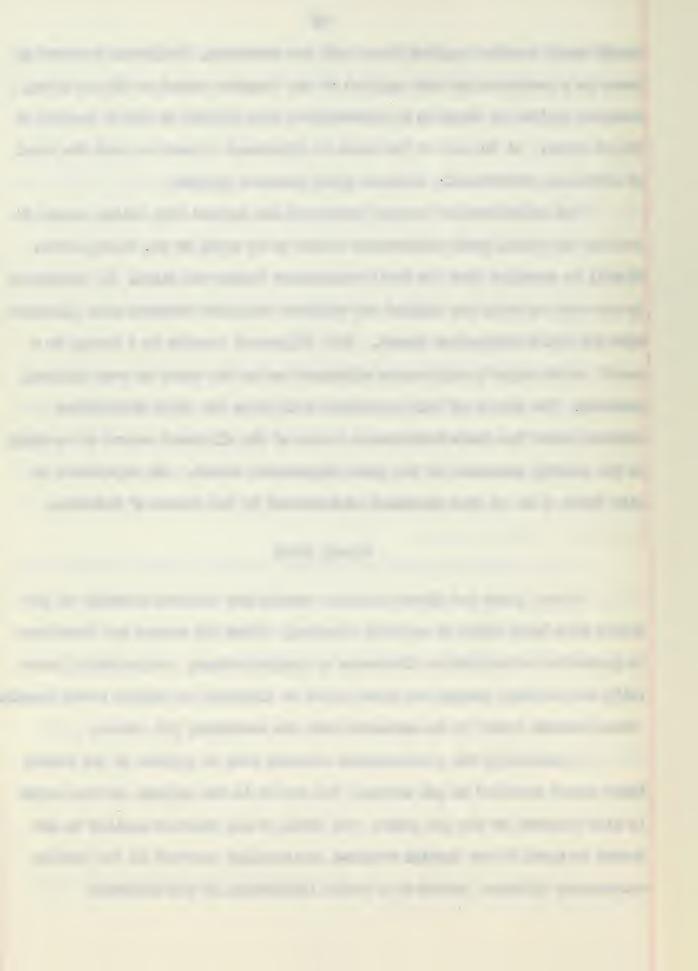
rerely equal courheal applied times both are estimates. Estimated overhead is based on a predetermined rate applied to the budgeted anount of direct labor. Overhead applied is based on a predetermined rate applied to actual anounts of direct labor. It the end of the month an adjustment is made to make the total of estimated distributable overhead equal everhead applied.

The distributable evertead estimated and applied will solid result in causing the actual Pasic Maintenance Amount to be equal to the fixed arount. It will be recalled that the Dasic Maintenance Amount was fixed. An adjustment is now and to bring the applied and adjustment estimated eventual into a recomment with the Dasic Maintenance Amount. This adjustment results in a charge or a credit to the Depot's maintenance allotment and is the under or over absorbed everhead. The amount of this adjustment will cause the total obligations recorded under the Dasic Maintenance (mount of the allotment record to be equal to the monthly increment of the Dasic Maintenance (mount. The adjustment is also taken up in an open allotment administered by the Dursau of Ordinance.

Most Costs

Pirect labor and direct material charges are recorded directly to job orders from labor rolls or material vouchers. These job orders are subsidiary to productive authorization allotments or project orders. Puried cally later rolls and material charges are also posted to allotment or project order records. These records should be in agreement with the subsidiary job orders.

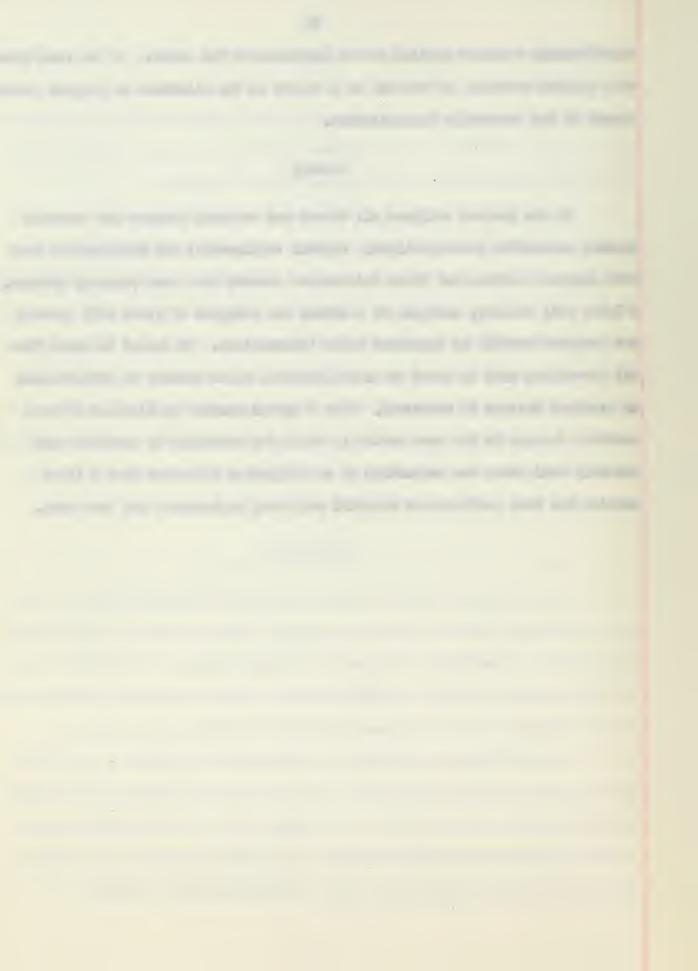
Periodically the predstermined overhead rate is applied to the direct labor execut recorded on job orders. The result is the applied everhead which is also recorded on the job order. The total of all overhead applied to job orders is equal to the applied everhead periodically recorded on the station maintenance allotment record as a credit high dath on of the estimated



distributable overhead applied at the beginning of the month. At the same time this applied overhead is recorded as a charge on the allotment or project order record of the production authorization.

Cummary

By the process outlined all direct and overhead charges are recorded against productive authorizations. Capital requirements and reinbursible work with applied overhead and Dasic Maintenance Amounts have been properly charged. A labor roll susmary, analysis of overhead and analysis of labor roll susmary are prepared monthly to susmarize these transactions. It should be noted that all accounting data is based on an obligational basis insofar as distribution of overhead charges is concerned. Such a system permits application of most overhead charges in the same period in which the materials or services were actually used since the requesting of an obligation indicates that a labor service has been performed or material requiring replacement has been used.



CHAPTER IV

INTERNAL REVIEW

A large coastal Naval Amaunition Depot represents no small operation.

Like the commercial enterprises making up a substantial portion of American industry, defense activities have grown to tramendous size. Ammunition Depots are no exception. Thereas several decades ago the Commanding Officer could personally keep abreast of all Depot activities, today the physical size, manpower force, and production responsibilities are such that the Commanding Officer has unavoidably moved farther and farther from the actual operation.

Need for Internal Review

It is because of the vastness of a depot's operation that the remote control aspect of modern day management has gained much momentum. In order for the Commanding Officer and other executives to properly control the operations of a depot some means must be adopted whereby management is kept adequately informed so that intelligent direction and guidance will be forthcoming. The broadening distance between top management and execution of operating plans accontuates this need of some tool which will bridge the map. Communications from top management more naturally jump this gap than does intelligence from below. Management's answer to this problem has been the adoption of management controls.

A principal problem of the Commanding Officer is the need for observation to facilitate his coordination and centrol of operations. Internal Audit 77 -----

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is the management control device which performs the observation function. Internal Audit observes the effects of all other management controls. Heretofore internal auditing was aimed at observation of accounting or financial controls. Today internal auditing is closely allied with controls through sound organization, budgeting, forecasting, policy accounting, manuals, reports, job analysis planning. These and other forms of control supplant the personal observations formerly depended upon. Internal Audit is a control of the controls. Wiedern internal auditing is more than a mere mathematical checking or routine examination of accounts. It comprises a complete...financial and operation review. Wieles

Criticals of any responsibility. Management controls do relieve management heads of burdensome observation. The controls alford a filtering process whereby only the essential information is communicated. At all levels of Depot management because of the magnitude of its operations, personal observation is plagued with misinterpretation, misunderstanding, poor judgment and neglect.

Built in controls counter this weakness of the human element.

Responsibility for Internal Review

audit. The responsibility for internal audit as presented above, that is, control of all other controls, is divided between the Comptroller and the Management Engineer. The controls with which the Comptroller is primarily associated are those related to accounting and financial systems. 22

York: McGraw Hill, 1951), p. 3. Industrial Internal Accounting (New

²²y.S., Navy Department, Bureau of Ordnance, "Naval Shore Establishment Internal Review (internal audit) function," NAVORDINST 7500.2, 8 Feb 1955, p. 2.

more property of the contract

The other management controls, responsibility for the execution of which rests with the Management Engineer, have been mentioned here because a close relation exists between the staff efforts of the Management Engineer and the Comptroller. Management Engineering provides for broad aspects of management controls evaluation. Internal review or audit limits its province to the financial aspects of management control evaluation.²³

A working understanding must be established between the Comptroller and the Management Engineer to insure that their efforts are coordinated, that they complement rather than work against each other. 24 Obviously the Management Engineer will make surveys which will encompass the activity of the Comptroller's Department. Wethods engineering, work simplification, organizational and functional relationships, distribution and utilization of manpower, facilities and equipment, work measurement, analysis of variances from plans and standards are all studies, surveys or reviews performed by the Management Engineer. The comptroller reviews and examines accounting and fiscal systems of checks and balances, procedures, records and documents used for internal accounting controls and fiscal procedures in terms of completeness and effectiveness. Additionally, the Comptroller is responsible for analyzing variances from the budget plan. Thus it is readily seen that it is difficult to draw a line between the responsibilities of the two departments. Organizationally such a condition is undesirable. In inland depots the Management Engineer is in the Comptroller's Department. In large coastal depots there are either two separate departments or the functions are integrated in the Comptroller's Department at the option of the Commanding Officer.

^{23&}lt;sub>Ibid</sub>, p. 7.

²¹ Management Munual for Maval Ammunition Depots, op. cit., p. 5.19.

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Simply stated, internal review at an ordnance activity is nothing more than checking up on the financial controls established in the depot. More specifically the following definition may be useful. 25

(1) Verification of financial transactions, documents, records and reports to provide management with an organized sudit control incurring loyalty of transactions, accuracy of data and compliance with prescribed policies, systems and procedures.

(2) Study, analysis and constructive appraisal of established financial policies, systems, records, reports, budgeting, costing and control to

provide management with recommendations for improvement.

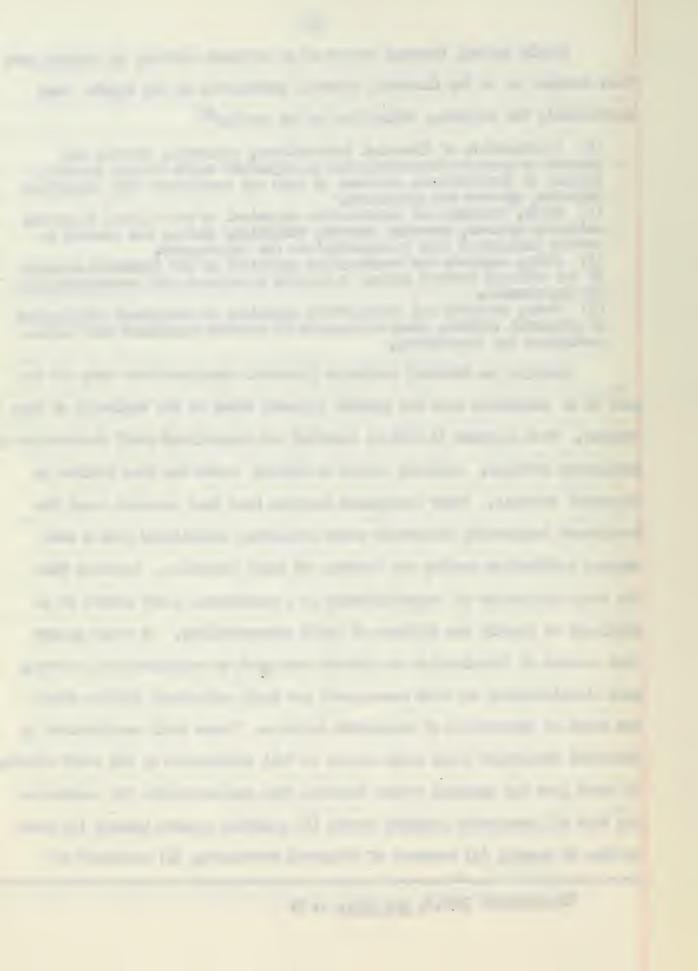
(3) Study, enalysis and constructive appraisal of the financial aspects of the internal central system to provide management with recommendations for improvement.

(4) Study, analysis and constructive appraisal of management utilization of financial records, data and reports to provide management with recom-

merkiations for improvement.

Limiting the internal review to firm cial considerations does not appear to be compatible with the general approach taken at the beginning of this Chapter. That approach it will be recalled was controlled staff observation of management controls. Internal review as defined above has been limited to financial controls. Other management controls have been centered under the Amagement Engineering Repartment where separately established with a consequent duplication overlap and interlap of staff functions. Assuming that the basic philosophy of Comptrollership is a coordinated staff effort it is difficult to justify the division of staff responsibility. It would expear that reviews of Organization and Methods work such as organizational surveys. work simplification and work measurement are tools definitely falling within the reals of observation of management centrals. These tools complemented by financial management tools would result in full integration of the staff effort. It would give the internal review function full responsibility for ascertaining that all management controls assure (1) quarding against lesses, (2) protection of assets, (3) accuracy of financial statements, (4) adherence to

MAYOFILIET 7500.2, op. oit., p. 2.



policies and procedures, and, most important, (5) that the most economic and effective methods and procedures are used.

Thus it seems a logical step to transfer the Organization and Methods review functions from the Management Engineering Department to the Comptroller's internal review staff and that the definition of internal review be broadened to include these functions. The Management Engineering Devision will then be free to concentrate more attention to industrial engineering matters such as productive standards and variances, quality considerations, production efficiency and the like.

This is an area of much controversy and is currently receiving considerable attention in the Bureau of Ordnance. No matter what the outcome it is well that the Comptroller have a clear understanding of the hazy relationships which exist. With this well in mind our objective approach should result in an atmosphere of coordination and cooperation between the Comptroller and the Management Engineer.

Atmosphere

Auditing is commonly considered akin to "gestapo." This must not be the atmosphere at a depot. The auditor is not on the depot to put people on the spot. He is there for the purpose of helping. Any other duties are secondary. In working with operators an attitude of mutual assistance is the ideal to be attained.

The auditor is not so much interested in uncovering fraud or irregularities as he is in assuring to his own satisfaction that management controls are strong enough to prevent fraud. His goal is to find methods and procedures which will cause depot operations a maximum efficiency, economy, and effectiveness.

It is important that there exist a mutual understanding between the

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auditor and the operators of their relationship. If it is clear to the operators that the auditor is more interested in helping them uncover shortcomings and in developing ways of improving operations, life on the depot will be much happier for the internal audit team.

Service Provided

"Internal auditing is one of the principal techniques of appraisal and evaluation of results."26 Internal Auditing makes the following observation for management:27

- 1. Are its plans, policies and procedures being effectively and efficiently executed?
 - 2. Are all managerial and accounting controls functioning properly?
- 3. Are financial statements and statistical and other reports accurate and complete?
 - 4. Are depot assets safeguarded and used properly?
- 5. Is management correctly informed of important facts and happenings in the organization?

The internal auditor is equipped to find the answers to such questions. He should be given freedom to bounce into any level in the organization so that his analysis will be made at a point closest to the point of responsibility.

By going into any spot of the organization he becomes the eyes and ears of management. He assures that: organizational changes are made effectively; policies are stated clearly and are adhered to; methods and procedures are efficient, up-to-date, and consistent on a depot wide basis; management plans are carried out. The auditor can assure management that departments are coordinated.

²⁶F.A. Lamperti and J.B. Thurston, Internal Auditing for Langement (New York: Prentice Hall, Inc., 1953), p. 9.

²⁷ Ibid.

Court of the latest territories and the same The second secon the same of the sa checks and balances exist, expenditures are in accordance with policy and are subject to progress forecasts and budgeting controls, and that results are neasured against standards with due recognition given to variances.

Thus the internal auditor is a principal influence in the concept of control. He gives management the means by which it is adequately informed in order to provide for intelligent and effective guidance and direction. The information provided should be condensed, summarized and presented in comparative form for all elements of management. Exceptions to past averages or standards should be flagged whether they are bad or good. Thus the technique of management by exception should be used freely.

Organization Control

Since one of the most important of man general controls is control through organization, it is selected for discussion. Organization should receive the greatest emphasis of the internal auditor, for it is upon organization that all other controls depend. Organization control has received more recognition in the military than in industry for a number of years. For this reason standard organization has been resorted to to the extent feasible. The Bureau of Ordnance prescribes the Depot formal organization through divisional level. Below this level the Commanding Officer exercises considerable latitude in control through internal organization.

The significance of control through organization is best illustrated by considering the relation between organization, accounting and budgeting.

The cost system of the depot should be constructed such that it identifies organizational responsibilities. Organizational units should be the basis for collating, reporting and measuring cost information. Using the correlated organization and cost system for budgeting facilitates comparison of budget costs

Desire Sales and Control

with actual costs. Then properly organized the Depot will be responsive to changing conditions since no matter what the change individual responsibility will exist.

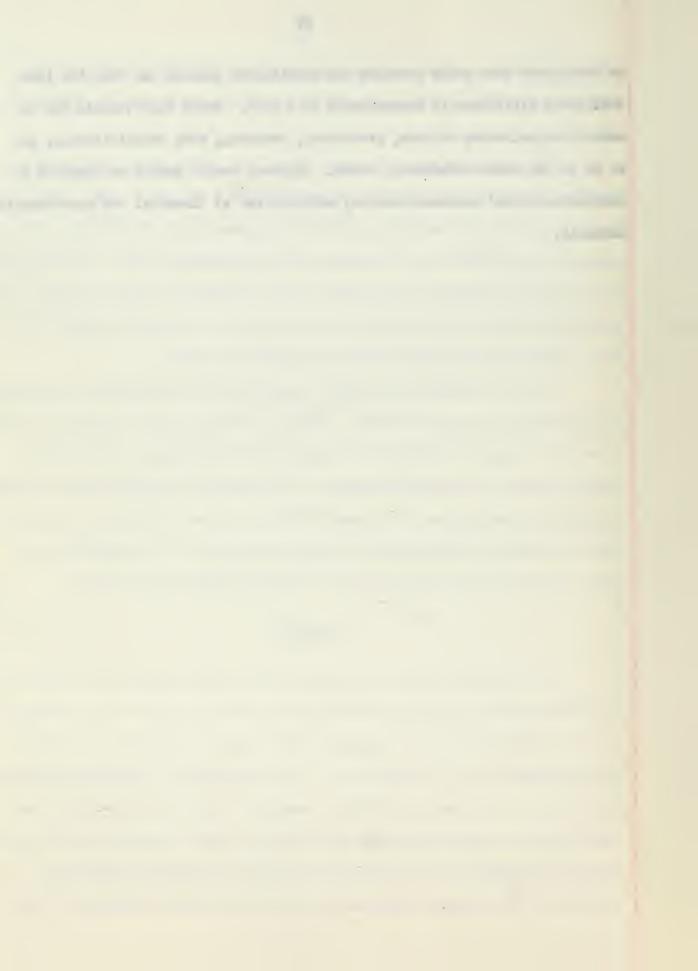
trol is delegated nearest to the point of action. This will give more meaning to budgeting and the accounting system. Every man should know what he is expected to do, to whom he is reporting, and who reported to him. The organization should be such that planned work can be divided into tasks for which organizational units are responsible. Coordination of collective units of the plan is accomplished at each higher organizational level.

Thus in organization we have a vehicle by which management can install the required management controls. Through organization Depot problems, objectives, and programs are defined in manuals and instructions. The internal auditor should be continually reviewing to assure that the principles of sound organization are applied. He should be able to detect faults in the organizational structure, duplications of effort, overlapping of functions, and the like, and he should propose necessary remedial action to management.

Summary

This discussion has been directed at an understanding of the internal review function. If nothing else has been accomplished other than identifying internal review as a super management control which assesses other controls this discussion has been worth while. The Comptroller or Wanagement Engineer as the case may be must not fall into the trap of looking upon internal review only as a financial control and industrial tool. Although a Depot is an industrial activity and much emphasis is placed on operating performance analysis of the Ordnance Department and the Net and Room Department, it must

be recognized that staff services are continually growing and that the idea that their efficiency is immeasurable is a myth. Great improvements can be made in organization methods, procedures, training, work simplification, and so on in the non-manufacturing areas. Internal review should be directed at manufacturing and non-manufacturing entities and at financial and non-financial controls.



CHAPTER V

STAFF RELATIONSHIPS

The discussion of the Bureau of Ordnance concept of comptrollership in Chapter I and the nature of execution of his functions discussed in subsequent chapters lead us to the inference that the depot comptroller is generally free of direct external or internal influence. His resonsibility is to his commanding officer and to other staff departments and to overating departments. However, the responsibility is in the nature of an advisory staff capacity. He is not a line executive.

External direction affecting the comptroller is directed to the Commanding Officer; communications leaving the command are in the name of the commanding officer.

Internal relationships are such that the comptroller does not interfere with operations nor do the operators interfere with him. The comptroller must have access to information in other staff departments and operating departments but the influence is manifested in his relationship with other executives.

Their confidence in his ability, sincerity and trustworthings will go far to ease acceptance of his idear.

Comptroller should report directly to the commanding officer as his chief advisor on financial and mana ement control.

It doesn't require a great deal of imagination to envision a comptroller becoming an unpopular fellow. His close relations and ready access to

the commanding officer may result in resentment by other staff members. He may appear to be the only executive to have the ear of the Chief. This is an atmosphere which must be avoided for as soon as it manifests itself the Comptroller's usefulness is compromised. He will no longer be a relay point because no one will communicate with or confide in him.

The comptroller and the commanding officer must studiously avoid this relationship creating discontent. Ardent recognition of the line-staff concept should assure success. The fruits of the comptroller's efforts must be communicated from him to the commanding officer. From the commanding officer decisions should flow to his departments.

Any staff man has found himself in a position of having his Chief return one of his recommendations approved with a note directing that it be effected by the originator. This is fine if it is desired that the comptroller smooth the idea up in final form for the chief's signature. Frequently it doesn't mean this but envisions going to parties concerned and telling them to get hot. This manner of communication should be avoided at all costs. Decisions should be communicated from the depot commander to the affected department irrespective of who originated the proposal or recommendation.

Thus the greater his ability to "dodge" the command function the more harmonious will be the comptroller's relationships with other departments and the easier will be his job.

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